EXHIBIT A

2004 Annual Report

Abbott
A Promise for Life

Founded in 1888 by Dr. Wallace Calvin Abbott, a Chicago physician, Abbott is a broad-based health care company that discovers, develops, manufactures and markets products that span the continuum of care — from prevention and diagnosis to treatment and cure. Abbott's principal businesses include medical products, including devices, diagnostic tests and instruments, nutritionals for children and adults, and pharmaceuticals.

Headquartered in north suburban Chicago, Abbott serves customers in more than 130 countries, with a staff of 60,000-plus at more than 100 manufacturing, distribution, research and development, and other locations.

On the cover: Katrina Donnell spends hours at the beach, but only seconds checking her blood glucose levels, thanks to *FreeStyle Flash,* the world's smallest glucose monitor. During a routine physical nearly four years ago, the 15-year-old from San Diego, Calif., was diagnosed with diabetes. Today, she spends time with her friends and educates others about the disease through her volunteer activities with the Juvenile Diabetes Research Foundation.

Miles D. White
Chairman of the Board and
Chief Executive Officer

To our shareholders:

Our company had an excellent 2004. Sales rose 14 percent, based on strong and balanced double-digit growth in both of our business groups. In medical products we delivered our best performance in 10 years. In pharmaceuticals we achieved double-digit U.S. sales growth for the 17th time in 18 quarters.

We were able to deliver at this high level because of the work we've done to strategically transform our company to prepare it for the future. We've built Abbott to provide patients more innovative products with greater marketplace potential; we've broadened our base and enhanced our mix of businesses; and we've strengthened our organization to make this possible.

We have a very straightforward, three-part strategy: we're focused on serving the patient, with superior science, across a broad base of technologies and businesses. And we're executing this strategy with increasing success. By building our business base and our new-product pipeline, we've made Abbott a stronger company, capable of delivering consistent performance. And our progress has been acknowledged by several leading national publications, including recognition as one of the most admired companies in our industry.

Building for the future

Five years ago, it was clear that we would have to make significant changes to ensure a future as successful as our past and to carry on Abbott's legacy for patients, for shareholders and for all of those who depend upon our company. We've done that work.

- We've rationalized our business structure for focus and performance. Our two business groups, Pharmaceutical Products and Medical Products, have clearly defined and complementary growth strategies, and provide us with one of the broadest and most stable business bases in the health care industry.

- We've invested to build that base with strategic acquisitions ranging from large transactions to enhance our global pharmaceuticals business to smaller transactions involving technology-based companies to strengthen the medical products business. As a result, Abbott is now composed entirely of businesses that are either established market leaders, or high-growth, high-margin opportunities driven by scientific innovation.

We have a very straightforward, three-part strategy: we're focused on serving the patient, with superior science, across a broad base of technologies and businesses.

- And we've raised Abbott science to a new level. Top-tier scientific capability is critical to our future success and to our ability to provide a strong return to shareholders, and will remain at the center of our strategy for the future. We increased Abbott's R&D investment significantly over the past five years. As a result, we've become a significant biotechnology company through our leadership in monoclonal antibody research. And through our varied medical products businesses, we're developing innovative new technologies across a broad range of therapeutic areas and market categories. Abbott has been recognized as having one of the best new-product pipelines in the health care industry.

2004 financial results and business highlights

The foundation for our increasing success is our broad and well-balanced base of businesses.

Our Medical Products Group (MPG) has done an outstanding job of raising its standards, its capabilities and its profitability. MPG is now a very attractive combination of established market leaders such as Abbott Diagnostics and our Ross nutritionals business, with a range of very promising, technology-driven businesses that compete in high-growth new markets.

At the same time, our Pharmaceutical Products Group (PPG) has become a major pharmaceutical player. By globalizing operations, strengthening R&D and focusing the business on

a set of high-potential markets that best match our strengths, we've built one of the industry's fastest growing pharmaceutical companies and one of its best new-product pipelines.

This strong base allowed us to deliver on our financial commitments despite some significant challenges. Notably TAP, our joint venture with Takeda Pharmaceutical Company Ltd., had a disappointing year. At the same time, generic competition arose for our thyroid medication, *Synthroid*. While we did feel impact from this, we've been remarkably successful in retaining patients, as opposed to the precipitous drop-off usually seen when generics enter the market.

Abbott stock rose 7 percent for the year, placing it among the leaders in our peer group of companies. Combined with our excellent dividend yield, our total return to shareholders was also among the group's best at approximately 10 percent. Our five-year total return to shareholders was tied for best in the group at 52 percent, and we outperformed both the S&P 500 and S&P 500 Health Care indices.

Highlights of our year include:

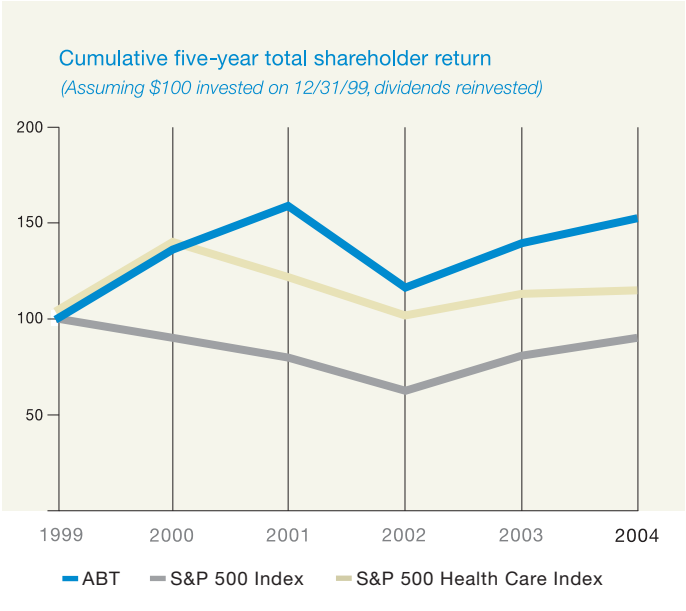
The successful creation of Hospira

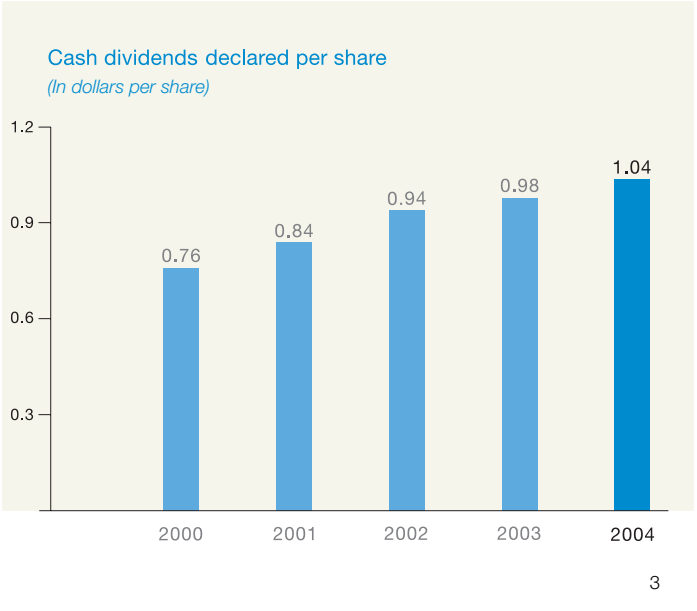
On April 30, our former hospital products business became an independent company. We created Hospira because we recognized that both Abbott and this business would thrive better separately than together, and that shareholders would be better served by two more focused companies. The market has agreed that this was the right decision. The value of the two companies rose more than $9 billion (13 percent) between Hospira's launch and the end of the year.

Outstanding global pharmaceutical growth

Humira, our breakthrough treatment for patients with rheumatoid arthritis (RA), exceeded expectations in 2004, achieving worldwide sales of more than $850 million in its first full year on the market. In 2005, we expect *Humira* to become our largest single product, with global sales exceeding $1.3 billion. And we believe this is still only the beginning for this remarkable medication, which we refer to as "a pipeline in a product" because of the promise it offers to treat multiple conditions. We are currently developing *Humira* for six additional indications.

Our AIDS medication *Kaletra* remained the world's number one HIV protease inhibitor, supported by data showing no viral resistance after six years, for HIV patients new to therapy. We expect *Kaletra* to generate another year of strong sales, along with *TriCor*, our lipid-lowering medicine, on the strength of an improved new formulation.





Broadening our base

Acquisitions have been a core element of our strategy to improve our business mix. We were particularly active last year in medical products, where we added businesses that met our rigorous acquisition criteria and greatly strengthened our competitiveness.

The largest of our acquisitions in 2004 was TheraSense, Inc., a maker of advanced diabetes management technology, which we combined with our existing glucose monitoring business to create Abbott Diabetes Care. Building on the base we established here through our MediSense business, we now have the commercial presence and the technological depth to achieve leadership in this market. This business is expected to cross the billion-dollar threshold in 2005, with outstanding opportunity for sustainable growth as we help to address a global epidemic of diabetes.

Miles White, chairman of the board and chief executive officer, is pictured here in the lobby of Abbott Diabetes Care in Alameda, Calif., with Kerry Galligan. Kerry, a product quality assurance manager at Abbott Diabetes Care, was diagnosed with diabetes more than 20 years ago. She is demonstrating *FreeStyle Navigator*, a continuous blood glucose monitor that is in development to help people with diabetes eliminate the need to perform multiple, daily finger sticks. Through a patch worn on the arm or abdomen that samples interstitial fluid, *FreeStyle Navigator* is designed to enable patients to monitor glucose levels every 60 seconds.

Also in 2004, we completed the acquisition of i-STAT Corp., broadening our range and expertise in diagnostic testing. *i-STAT* analyzers provide us leading technology in point-of-care diagnostics, which provide both convenience and speed by allowing physicians to receive test results at the patient's side. We also enhanced our growing spine-care business with the addition of Spine Next S.A., a French company that has developed unique technology in the emerging non-fusion segment of the spine market. And we significantly strengthened our position in the fast-growing, healthy living nutrition market with our acquisition of Experimental and Applied Sciences, Inc. (EAS), the maker of *Body for Life* and other well-known brands of nutrition bars and drinks. These additions help to enhance our business breadth, balance our mix between medical products and pharmaceutical products, and bring us superior products in fast-growing new markets. As we've demonstrated, Abbott's commercial presence and development resources can help these entrepreneurial businesses grow larger, faster.

Our diagnostics business made great progress in 2004 toward regaining its traditional market leadership. Now supported by improved quality systems, we completed more than 80 diagnostic product launches during the year and placed nearly 1,000 new *Architect* diagnostic systems worldwide. We now have nearly 50,000 immunochemistry instruments placed with customers around the world, which provides us an outstanding base for the future of this reinvigorated business.

And, in pharmaceuticals, we saw great productivity from our late-stage pipeline in 2004. We completed seven regulatory submissions in the second half of the year. Highlights include submissions for *Humira* for early RA and psoriatic arthritis. We also submitted new drug applications for a capsule form of *Zemplar* for a complication associated with chronic kidney disease; and for *Xinlay*, for prostate cancer. Prostate cancer kills 30,000 American men each year, and there are very few treatment options available for patients. TAP submitted

febuxostat for FDA approval for chronic gout. And *Simdax*, in late-stage clinical trials for congestive heart failure, continues to move through development. We plan to submit a new drug application for *Simdax* by year-end, one of up to 10 additional pharmaceutical regulatory submissions or approvals expected in 2005.

The health care environment: what it will take to succeed

Our efforts to build Abbott have been carried out against what has been, perhaps, the most difficult business environment our industry has ever faced — and one we do not expect to improve meaningfully in the foreseeable future.

Despite strong financial performance, major pharmaceutical stocks have seen, on average, flat-to-negative price performance in recent years. This is due to a complex of factors, including rising cost pressures, generic competition, a perceived dearth of new chemical entities, regulatory constraints and litigation. But the dominant factor influencing our industry today is increasing political pressure to provide people access to medicines when health care systems fail to do so.

We've navigated this extremely difficult environment while simultaneously transforming Abbott into a company better prepared to overcome these challenges going forward. We've rebuilt our company around the critical success factors for the future of the health care industry. Our strategy is based on the three key determinants of success we see in the years ahead:

Business breadth

Abbott has been a multi-line health care company for more than 70 years. Maintaining a broad base of business has never been a more prominent and active part of our strategy than it is today. In transforming Abbott we've invested heavily to build the right combination of businesses, and to equip and structure those businesses to succeed.

Together, our two very different and highly complementary business groups give Abbott a well-balanced portfolio that promises strong, consistent growth while minimizing the volatility that affects so many companies that operate in a single line of business. These two models allow us to capture the higher growth that is possible with pharmaceuticals, while smoothing out cycles with medical products that offer high growth and profitability with less risk and uncertainty.

Our two business groups, Pharmaceutical Products and Medical Products, provide us one of the broadest and most stable business bases in the health care industry.

Pharmaceuticals offer higher reward, but at higher risk. Medical products lower that risk profile considerably while providing excellent return. We can count on bringing more medical products to market, faster than pharmaceuticals. Their development generally takes less time and investment. And they improve our balance between short- and long-term investments.

Our broad base of businesses allows us to capture more opportunities, to grow faster, and to deliver a more consistent return to our shareholders. Over the past five years, broad-based health care companies outperformed pure pharmaceutical companies in total shareholder return. In fact, during the period, nearly all major pure pharmaceutical companies had negative total returns compared to strong double-digit returns for the major diversified companies, including Abbott.

Superior science

We've worked to build the kind of research and development organization that we expect to win in the future health care environment.

Our investment has risen to the point that our program can be highly competitive, funding a range of major projects simultaneously. By consolidating our pharmaceutical R&D into a single, global organization, we've realized great efficiencies — allowing us to conduct more programs, in a focused set of therapeutic areas, more productively than before. At the same time, the addition of innovative new businesses in medical products means that our entire company is now focused on delivering advanced new technologies.

Most importantly, our focus is on breakthrough medical science — innovative technologies that change the way patients are treated and, as a result, change their lives. *Humira* is one such advance. It leads the way in what we expect to be a succession of biological products based on our leading monoclonal antibody technology. Our cancer compound, *Xinlay*, is the first drug in an entirely new class with breakthrough potential for patients.

Most importantly, our focus is on breakthrough medical science — innovative technologies that change the way patients are treated and, as a result, change their lives.

In medical products our *Freestyle Navigator* glucose monitoring system was recognized by *Time* magazine as one of the most promising new medical technologies on the horizon. And in molecular diagnostics, a field that didn't even exist only a few years ago, we now offer products that are changing lives. For example, our *PathVysion* test uses an advanced technology called FISH (fluorescence *in situ* hybridization) to identify the precise kind of cancer a patient is fighting and, consequently, the best therapy to treat it.

We're making Abbott a leader in medical science. Our commitment to this goal will only grow. Our future lies in tomorrow's new products, and we intend for them to make the difference for patients and for investors.

Taking action for the patient

In the past year, during which I've served as chairman of the Pharmaceutical Research and Manufacturers of America (PhRMA), the pharmaceutical industry's U.S. trade association, an industry-wide program has been launched to ensure that patients are able to get the medicines they need, not just affordably, but often at no cost. Today, our industry is showing great leadership, not just in creating new and better health care products, but in ensuring that those who need them, get them. Through the Partnership for Prescription Assistance (PPA), our industry is working closely with a broad coalition of other committed parties to understand patients' concerns and to take meaningful actions to address them. The PPA brings together doctors, nurses, patient organizations, community groups and pharmaceutical makers to help low-income, uninsured patients receive free or nearly free doctor-prescribed medicines in the most efficient way.

Abbott is among the leaders in this effort. Our patient assistance programs provide free medications to those in need, for important treatments such as *Kaletra* and *Humira*. In 2004, the Abbott Patient Assistance Program and *Humira* Medicare Assistance Program gave qualified patients more than $235 million worth of Abbott medicines at no cost. We're also discounting medicines for seniors and the uninsured.

And we're at the forefront of industry efforts to educate people who need help on how to get their medications as easily and inexpensively as possible. Our sales representatives are helping the U.S. government to distribute

information on the Medicare drug benefit program. We've worked with peer companies to provide patients one-stop access to our patient assistance programs, and to make those programs better known and easier to use. These efforts continued in January when Abbott, TAP and eight other pharmaceutical makers launched Together Rx Access, a program that will provide discounts of up to 40 percent for uninsured Americans under the age of 65 who need help affording their prescriptions.

Our industry is showing great leadership, not just in creating new and better health care products, but in ensuring that those who need them, get them.

These actions, combined with our pioneering work to improve treatment access in Africa and developing countries, put Abbott at the forefront of efforts to secure access for all of the people who need our products.

Ready to win

We've built our company to win in the years ahead: to win for patients, and as a result, to win for shareholders. Of the many reasons why Abbott is prepared to deliver sustainable, stronger growth, one remains to discuss: our people.

Abbott people are, of course, the source of all our company's success. "Superior science" means Abbott people. "Business breadth" means Abbott people. The people who are Abbott have risen to the challenge of a new era in health care and a new era for our company. It takes 60,000 committed people around the world to make this happen.

We thank those colleagues who retired from our company in 2004 after many years and many contributions to our success, and congratulate those who have taken on new senior leadership positions. Lance Wyatt, senior vice president, Global Pharmaceutical Manufacturing, retired in 2004 after 28 years with the company in multiple divisions. Lance was succeeded by John Landgraf, a 26-year Abbott veteran. Holger Liepmann, a 19-year veteran of Abbott's international business, was named senior vice president, International Operations, succeeding Guillermo Herrera, who retired after 24 years with the company. Jose de Lasa, executive vice president and general counsel, retires from the company effective March 31, 2005, after 10 years of service. Laura Schumacher, a 15-year Abbott veteran who previously headed our litigation group will succeed Jose. And, once again, we congratulate our 14,000 former colleagues who have successfully launched Hospira as an independent company that is already a leader in its marketplace.

At the same time, we are delighted to welcome William Daley, an outstanding new addition to our Board of Directors. Bill is chairman of the Midwest for JP Morgan Chase & Co. He brings our Board a unique combination of business and governmental experience at the highest levels, having also served as U.S. Secretary of Commerce under President Bill Clinton. We are committed to maintaining a Board of high quality and independence to guarantee the effective governance of our company. Bill's appointment ably serves this goal.

Abbott people have surmounted internal and external challenges to bring our company to a position of greater strength, opportunity, and promise for the future. Thanks to them, Abbott is ready to achieve a higher level of success for years to come. Abbott is ready to deliver breakthrough innovation across our broad base of health care businesses. Abbott is ready to improve health care for more people in more ways than ever before. In short, Abbott is ready to win.

Miles D. White
Chairman of the Board and Chief Executive Officer
March 1, 2005

Promise

We made great progress in the strategic transformation of our company.

We are advancing leading-edge technologies to deliver solutions for patients; focusing on areas of medical need with the most urgency and possibility; and building our broad-based business and worldwide presence to execute on our commitments to those we serve.

The strategies we are pursuing and the investments we are making are building a stronger, more vital Abbott. The promise of our company is in the promise that our work holds for health and life.

Marketed Products

Medical Products Group

Animal Health
Diabetes Care
Diagnostics
Molecular
Nutritionals
Point of Care
Spine
Vascular

Pharmaceutical Products Group

Anesthesia
Anti-Infectives
Cardiovascular
Immunology
Metabolics
Neuroscience
Pain Management
Renal Care
Virology

Product Research

Medical Products Group

Innovation is a critical component of our strategy to achieve leadership positions in areas where patient need is greatest. The following are selected highlights from some of our most promising late-stage medical technology development programs.

Diabetes Care

Abbott is developing new products that reduce the pain and inconvenience of blood glucose monitoring. *FreeStyle Navigator* is designed to continually measure glucose levels through a patch worn by the patient. In development, *FreeStyle Navigator* transmits glucose-level data every 60 seconds, allowing patients to monitor their diabetes more closely.

Vascular

Abbott is dedicated to advancing the treatment of vascular disease. Our *ZoMaxx* drug-eluting stent, currently in clinical trials, features a unique stainless steel and tantalum composite and seeks to deliver optimum drug concentration to the vessel wall to reduce narrowing of the artery. The *Emboshield* device (co-developed with MedNova Ltd.) captures embolic debris during carotid artery stenting, reducing the risk of stroke. *StarClose* is the world's first clip-based vascular closure device.

Molecular

Abbott recognizes the growing trend toward molecular testing, which has demonstrated advantages in detection, therapy monitoring and testing for predisposition of disease. Included in our growing pipeline are real-time PCR (polymerase chain reaction) tests for infectious diseases and FISH (fluorescence *in situ* hybridization) tests for cervical, esophageal and melanoma cancers.

Spine

Abbott is developing motion-preserving technologies and devices, which seek to treat degenerative disc disease without fusion of the vertebrae. For example, the *Wallis System* is a novel spinal implant for treating degenerative disc disease and is less invasive than artificial discs. Currently available outside the U.S., Abbott will initiate U.S. clinical trials for the *Wallis System* in 2005.

Diagnostics

Abbott continues to expand the menus of *AxSym* and *Architect*, its leading systems for immunoassay and clinical chemistry testing. In 2005, we anticipate more than 100 product launches. Among the assays in development is *Architect* BNP (B-type natriuretic peptide), which helps diagnose heart failure. In addition, Abbott is also expanding its line of *Cell-Dyn* hematology instruments, used to perform blood counts to screen for a variety of disorders.

Point of Care

Abbott is expanding its cardiac menu for its hand-held analyzer *i-STAT,* to provide faster results in the management of patients with chest pain. In addition, a new metabolic test panel, the *CHEM8+* cartridge, will allow physicians to obtain a rapid snapshot of the function of important organ systems.

Pharmaceutical Products Group

Abbott's pharmaceutical pipeline focuses on five specialty therapeutic areas that represent new hope for patients, many of whom suffer from diseases for which there have been no new treatments in decades. The following are selected disease areas where Abbott scientists are researching new treatments for patients.

Immunology

Abbott discovers and develops innovative biologics and small molecule treatments for autoimmune diseases. *Humira* is approved to treat rheumatoid arthritis (RA) and is under FDA review for early RA and psoriatic arthritis. Clinical trials are also underway for juvenile RA, psoriasis, Crohn's disease and ankylosing spondylitis. ABT-874, a biologic in clinical development, is being evaluated for multiple sclerosis, psoriasis and Crohn's disease.

Oncology

Abbott's approach in oncology is to develop more targeted, less toxic therapies to help people with cancer live longer, healthier lives. *Xinlay*, an oral, once-daily, non-chemotherapy agent, has been submitted for FDA review for the treatment of late-stage prostate cancer. Other therapies in earlier development seek to address multiple stages of cancer progression.

Metabolics

Developing safe and effective therapies for metabolic disorders remains the ultimate goal at Abbott. More than 150 million people worldwide have type 2 diabetes, and this number is expected to rise to 300 million by 2025. Pre-clinical research continues at Abbott for novel drugs for the treatment of diabetes and other metabolic disorders.

Neuroscience and Pain Management

More than 75 million U.S. adults suffer from chronic or acute pain. *Vicodin CR*, a more convenient option of a widely recognized pain medicine, is in late-stage clinical development. Novel compounds in earlier-stage development include treatments to address neurological diseases such as schizophrenia and Alzheimer's disease, as well as pain.

Infectious Diseases

Abbott has been a leader in HIV research for two decades. Discovery work is underway to identify a next-generation HIV protease inhibitor (PI). In 2005, Abbott expects to launch a once-daily version of its PI *Kaletra*, and to further improve convenience, expects to submit a regulatory application for a reduced pill count formulation. Abbott scientists also continue research on possible new treatments for hepatitis C.

Additional Therapies in Development

We have several promising, late-stage compounds that fall outside our five therapeutic areas of focus. They include *Simdax* (levosimendan) for heart failure, approved in several countries and in clinical development in the U.S. and Europe. *Zemplar Capsules* is under FDA review for treatment of a complication associated with chronic kidney disease.

Medical Products Group

Richard A. Gonzalez
President and Chief Operating Officer,
Medical Products Group

In 2004, Abbott's Medical Products Group, now strategically realigned across its eight businesses, delivered its best performance in 10 years.

FreeStyle Flash

FreeStyle Flash (*FreeStyle Mini* outside the U.S.) is the world's smallest blood glucose monitor and returns an accurate reading with a tiny 0.3 microliter sample in an average of just seven seconds. *FreeStyle Flash* is an example of Abbott's dedication to reducing the inconvenience and pain associated with blood glucose testing.

Diabetes Care

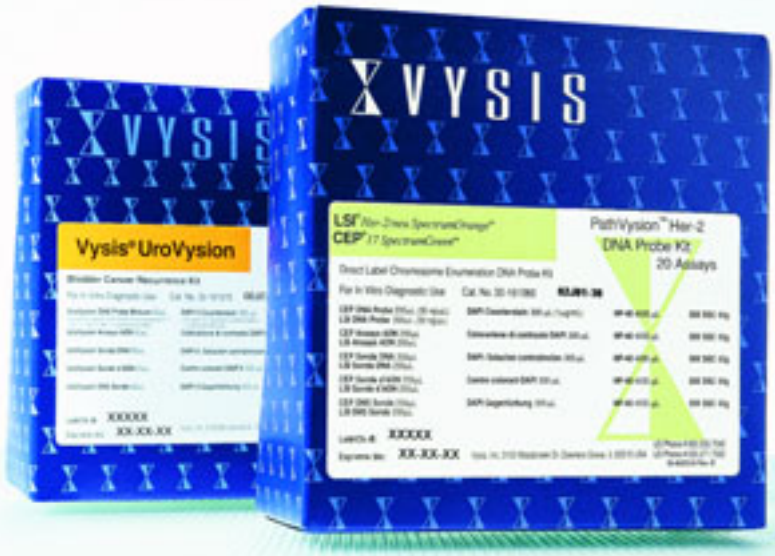
Point of Care

i-STAT

i-STAT is a market-leading hand-held analyzer that features a broad test menu. *i-STAT* delivers test results in a few minutes at the patient's bedside, improving outcomes and saving lives.

PathVysion and UroVysion

PathVysion tests for the HER-2 gene in breast cancer patients to identify candidates for appropriate therapy selection, including Herceptin therapy, a targeted cancer treatment. *UroVysion* is a DNA-based test for bladder cancer.



Diagnostics

Molecular

Architect ci8200

The *Architect ci8200* is a modular diagnostic analyzer that integrates chemistry and immunoassay testing. Its full menu includes testing for cancer, thyroid, fertility, cardiac, therapeutic drugs, drugs of abuse, hepatitis, metabolic, routine chemistries and specific proteins.

AbbottPrism

AbbottPrism, an analyzer designed for high-volume blood centers and blood banks, screens the majority of the world's blood supply.

Healthy Living

Abbott has expanded its presence in the healthy living category with the acquisition of the *Body for Life, Myoplex, ZonePerfect* and *AdvantEdge* brands.

Ensure provides great-tasting, on-the-go nutrition to help consumers stay healthy, active and energetic. The *Glucerna* family of bars and shakes is specifically designed for people with diabetes.

Nutritionals

Infant Nutritionals

Infant Nutritionals includes a broad line of infant formula products, including *Similac Advance* and *Isomil Advance*. *Pedialyte* is the number one pediatrician-recommended oral electrolyte solution in the U.S. for the prevention of dehydration, and *PediaSure* provides balanced nutrition for children.

ProGlide and StarClose

Perclose ProGlide and *StarClose* enable quick closure of femoral artery access sites after coronary interventions.

Emboshield

Emboshield, under FDA review with the *Xact* stent (both co-developed with MedNova Ltd.), seeks to capture debris dislodged during a carotid artery stenting procedure, reducing the risk of ischemic stroke.

Spine

Vascular

Animal Health

PathFinder and InFix

PathFinder (far right), a minimally invasive device used in lower back surgery, requires only two small incisions, potentially reducing pain and allowing patients to go home sooner. *InFix*, assembled inside the patient during surgery, allows surgeons to restore spine stability.

SevoFlo and PropoFlo

SevoFlo and *PropoFlo* are anesthesia products used by veterinarians in the operating room.

Key Accomplishments in 2004

Medical Products Group

Completed more than 80 diagnostic product launches

Abbott introduced a number of key assays on both the *AxSym* and *Architect* platforms. Abbott expanded its *AxSym* cardiac panel with BNP (B-type natriuretic peptide) and Troponin-I ADV, an improved troponin assay. Troponin-I was also launched on the *Architect* system. Outside the United States, Abbott completed its hepatitis menu offering on *Architect*.

Initiated enrollment in ZOMAXX I clinical trial

In the third quarter, Abbott began enrollment in ZOMAXX I, our international drug-eluting stent trial. The 400-patient, randomized, non-inferiority study is being conducted in more than 30 centers in Europe, Australia and New Zealand.

Launched *StarClose* outside the U.S.

Abbott introduced *StarClose*, its novel clip-based closure device, in more than 30 countries outside the United States. The clip-based device enables closure of the femoral artery access site in less than 30 seconds.

Completed acquisitions of TheraSense, Inc., i-STAT Corp. and Experimental and Applied Sciences, Inc. (EAS)

The TheraSense acquisition enhances Abbott's diabetes care product offerings with the *FreeStyle* product group, including *FreeStyle Flash,* the world's smallest blood glucose meter, and adds *FreeStyle Navigator*, a continuous blood glucose monitor, to our pipeline. In addition, the acquisition strengthens Abbott's global market position and sales infrastructure.

Abbott further reinforced its commitment to point-of-care diagnostics by acquiring i-STAT. i-STAT is an innovative leader with a proven history in hand-held analyzers, which can provide physicians with critical test results at a patient's bedside.

Abbott expanded its presence in the healthy living nutritionals category through its acquisition of EAS, the maker of the popular *AdvantEdge, Body for Life* and *Myoplex* brands of nutritional products.

PathVysion — With her friends and family supporting her, Donna Henagin is on an important mission — to build breast cancer awareness. Three years ago, she was treated with Herceptin therapy for breast cancer after the *PathVysion* test determined it was a viable treatment option that could save her life.

A promising beginning for our new business model

In 2003, we announced plans to reshape and realign our medical products business for higher growth. We created a new hospital products company in Hospira and created a new operating model at Abbott. We enhanced the Medical Products Group's potential by improving its ability to focus on opportunities in a number of dynamic, high-growth markets. The Medical Products Group now consists of eight distinct units: Abbott Diagnostics, Abbott Diabetes Care, Abbott Point of Care, Abbott Molecular, Ross Products, Abbott Vascular, Abbott Spine and Abbott Animal Health.

The Medical Products Group produced strong financial results in 2004. On April 30, Hospira became an independent company on schedule and according to plan. Our Lake County, Ill., diagnostics manufacturing facilities are operating within their improved quality system, and acquisitions in our blood glucose monitoring, point of care and nutritionals businesses further supported our high-growth strategy.

Our goal is to build billion-dollar businesses in diabetes care, molecular diagnostics and vascular devices — promising health care segments where innovation drives patient preference. We are developing highly sophisticated assays, instrumentation and devices that provide therapeutic alternatives for patients. As we strive to achieve leadership positions in each category, we are growing our core medical products businesses — Ross Products and Abbott Diagnostics — through the introduction of new products, market expansion and targeted acquisitions.

Diagnostics: building momentum through new product launches

Abbott diagnostic products are used to diagnose and monitor patients around the world in what is today an $11 billion global diagnostics market. Worldwide, Abbott maintains the number one position in the immunoassay segment. With the largest installed base of immunoassay instruments in the global diagnostics market — nearly 50,000 — Abbott has a presence in virtually every lab and hospital around the world. Moreover, Abbott has one of the broadest menus of immunoassays with 185 different menu items covering 11 therapeutic areas, including cardiac, infectious diseases and cancer. In addition, Abbott tests are used to screen the majority of the world's blood supply.

In 2004, we focused our efforts on more than 80 product launches. We introduced *AxSym* BNP (B-type natriuretic peptide), expanding our cardiac menu and providing customers with an alternative to diagnose and assess the severity of heart failure. Abbott also launched Troponin-I assays for both the *Architect* and *AxSym* systems to aid in the diagnosis of heart attacks and launched new assays for the *AxSym* system, including two hepatitis tests in the U.S.

In addition to menu expansion, Abbott's diagnostics division focused on improving the workflow of laboratory customers. The *Architect ci8200* system integrates immunoassay and clinical chemistry modules, facilitating workflow consolidation and boosting overall laboratory productivity.

At the American Association of Clinical Chemistry conference, we showcased the *Architect ci8200*, three hematology analyzers in development and several diagnostic products designed to improve laboratory workflow efficiency. The *Architour*, a unique mobile sales and marketing campaign, brought the *Architect ci8200* on a customized semitrailer directly to customers — giving laboratory personnel first-hand experience with the instrument. The *Architour* traveled more than 60,000 miles, reaching nearly 3,000 U.S. customers at hundreds of sites.

Although 2004 was a transition year, we made significant progress toward resuming upward sales momentum in our U.S. diagnostics business. We expect still better performance in 2005 and beyond as we work to increase market share by accelerating *Architect* placements and launching new assays to expand menus on the *Architect* and *AxSym* systems.

< *PathVysion* Patient - New York, New York

Body for Life — Kelly Adair entered the *Body for Life* Challenge through her local gym. Adding regular exercise, incorporating a better diet and choosing *Body for Life* shakes and bars made a significant impact on her life. She lost 25 pounds and has since changed careers to become a personal trainer.

Abbott Diabetes Care: adding TheraSense; strengthening our market presence

Abbott Diabetes Care is developing products to reduce the discomfort and inconvenience of blood glucose monitoring. We made important strides in 2004, introducing systems that are easier to use, require less blood and provide faster results.

We launched the new *Precision Xceed* blood glucose monitoring system, which features a small, compact meter design and simple three-button interface. Both the *Precision Xceed* and the *Precision Xtra* utilize our new test strip, which provides results in 10 seconds and requires 40 percent less blood than previous versions.

We acquired TheraSense, Inc., a leader in developing blood glucose self-monitoring devices that require very small blood samples to deliver rapid test results, virtually pain free.

TheraSense provides a strong product line and new advanced technology to our diabetes care business. The acquisition added leading marketed products to our portfolio including *FreeStyle Flash* (*FreeStyle Mini* outside the U.S.), the world's smallest glucose monitor. With the TheraSense acquisition, Abbott now holds the number three position in the large and growing blood glucose testing market. To build on that position, we are maximizing Abbott's global sales infrastructure to market both MediSense and TheraSense products to diabetes patients worldwide.

TheraSense also brought us *FreeStyle Navigator*, a continuous glucose monitoring system that is designed to monitor patient glucose levels 24 hours a day. *FreeStyle Navigator* is currently in development and has the potential to usher in a new era of diabetes management.

FreeStyle Navigator is designed to enable patients to monitor glucose levels every 60 seconds through a patch worn on the arm or abdomen that samples interstitial fluid. The sensor transmits results to a wireless receiver that can be placed in a pocket or purse, or worn on a belt. Under development to measure glucose levels continuously and accurately without multiple skin punctures, *FreeStyle Navigator* has the potential to provide a new level of convenience and efficacy benefitting diabetes patients and the health care system in general.

Abbott Point of Care: improving patient care; solidifying Abbott's point-of-care presence

The January 2004 acquisition of i-STAT Corp. demonstrated Abbott's commitment to transforming the medical products group into a higher-growth business focused on new technologies to improve patient care. i-STAT, a leading manufacturer of point-of-care diagnostic systems, secures Abbott's access to one of the industry's leading platforms and broadest product menus. Our complete point-of-care portfolio — which includes *Precision PCx* and *PrecisionWeb*, leading products in glucose measurement in hospitals — gives Abbott the broadest presence in the rapidly growing point-of-care market.

The *i-STAT* system provides physicians with the information they need to make life-saving decisions at the patient's bedside. It offers simple, accurate and reliable technology that delivers rapid results without transporting samples to a central laboratory. The increasing demand for faster turnaround of laboratory tests makes point of care an attractive commercial opportunity. Our goal is to improve patient outcomes in the acute setting through the development of new assays and systems.

One such assay launched in 2004 was the *i-STAT* Troponin-I test. Troponin-I is a protein that is released from dead or severely injured heart cells during a cardiac event.

Body for Life Consumer - Omaha, Nebraska >

StarClose — When chest pain sent John Mitchell to the hospital for a cardiac procedure, his physician used Abbott's new *StarClose* vessel closure device to seal the incision site in the femoral artery, allowing John to begin his recovery almost immediately.

The *i-STAT* Troponin-I test helps hospital emergency departments meet the American College of Cardiology and American Heart Association guidelines for patients presenting with chest pain. In 10 minutes, from a single drop of blood, the *i-STAT* analyzer provides results with the sensitivity needed to respond with immediate, life-saving therapy.

In 2005, we plan to launch new cardiac assays on the *i-STAT* analyzer, such as BNP and CK-MB (Creatine Kinase MB), which will offer physicians better information, faster.

Abbott Molecular: adding capabilities; enhancing disease detection

In molecular diagnostics, we are enhancing our capabilities in oncology, infectious diseases and other categories where genomic markers offer significant advantages in detection, therapy monitoring and testing for predisposition of disease.

Proprietary FISH (fluorescence *in situ* hybridization) technology is the basis for our non-invasive *UroVysion* test for early detection of the recurrence of bladder cancer. We received FDA approval to expand our *UroVysion* claims to include initial diagnosis of bladder cancer in patients with hematuria (blood in the urine). This represents a much broader indication with significantly higher sales potential. Our other FISH-based assay, *PathVysion*, tests for the HER-2 gene in breast cancer patients to identify appropriate candidates for cancer therapy selection.

We are also working on FISH-based assays to detect other forms of cancer. Because this technology has the potential to detect cancers earlier at the genetic level, these tests may offer better alternatives and outcomes for patients. Furthest along in development is a FISH-based test to non-invasively detect cervical cancer. Abbott expects to seek FDA approval for this test within the next few years.

In 2005, Abbott will launch new molecular-based systems and assays to automate real-time PCR (polymerase chain reaction) tests focusing on infectious diseases, which represent nearly 50 percent of the molecular diagnostics market. We are developing new molecular-based assays and automated systems for HIV, hepatitis B and C and chlamydia/gonorrhea, among others.

Success in the rapidly growing molecular segment complements Abbott's leadership position in the global diagnostics market. Most importantly, patients will benefit from more sophisticated genomic technology that provides better information to physicians and caregivers earlier in the disease process.

Ross Nutritionals: building the healthy living segment; expanding the product portfolio

Ross holds a leading position in the nutritional market segment with strong consumer brands — *Similac Advance* and *Isomil Advance* in pediatric nutritionals; *Ensure* and *ZonePerfect* for healthy, active adults; and *Glucerna* for people with diabetes. With a greater focus on consumer marketing, Ross is maximizing the strength of its core brands and leveraging its $500 million healthy living market presence.

In 2004, Abbott strengthened its position in the healthy living category with the addition of Experimental & Applied Sciences, Inc. (EAS), the maker of *AdvantEdge, Myoplex* and *Body for Life* brands. This acquisition accelerates Ross' entry into the important weight management and sports performance segments and increases our market presence in the balanced nutrition segment.

Abbott Vascular: advancing stent technologies; providing new alternatives

In 2004, we advanced our goal of becoming a leader in vascular products. Of particular note, we initiated the enrollment of ZOMAXX I, a clinical trial of our drug-eluting stent, outside of the U.S.

< *StarClose* Patient - London, England

PathFinder — Following a workplace injury, Reginald Peguese's doctor used *PathFinder* to repair damage to his spine. This minimally invasive device provided a quicker recovery, allowing Reginald to return to his normal routine, such as getting a cup of coffee and catching up on a good book.

Conducted in more than 30 centers in Europe, Australia and New Zealand, the trial investigates the performance of a novel stent platform that integrates three proprietary Abbott technologies: our innovative *TriMaxx* stent, which features a stainless steel and tantalum composite material that combines strength with high visibility to facilitate ease of positioning; ABT-578, our internally developed immunosuppressant drug; and *Pharmacoat*, a unique formulation of phosphorylcholine polymer coating that has been optimized to deliver a sustainable drug concentration to the vessel wall. Preliminary data suggest that our drug-eluting stent platform has the potential to be competitive in this growing $5 billion market.

In our vessel closure business, we added *Perclose ProGlide,* featuring a monofilament suture, which is favored by surgeons for vascular repair. We also introduced an entirely new clip-based technology that facilitates closure of the femoral artery access site after diagnostic and interventional procedures. Our novel *StarClose* device enables a secure, reliable close in less than 30 seconds and is intended to replace manual compression. Abbott launched *StarClose* outside the U.S. in 2004 and we plan a U.S. launch in 2005.

In our endovascular business, we completed our SECuRITY trial, testing the combination of the *Xact* stent and *Emboshield* device (co-developed with MedNova Ltd.). The *Emboshield* filter was developed to prevent plaque that may be released during carotid artery stenting from reaching critical organs, including the brain, reducing the possibility of a stroke. The trial evaluated the technology in patients at high risk for complications from a carotid endarterectomy, the surgical removal of the artery lining, which is the standard of care. The data demonstrate that carotid stenting with embolic protection is a viable alternative to this surgery, enabling patients to enjoy quicker recovery times from a less invasive procedure.

Early in 2005, we initiated a groundbreaking trial to investigate minimally invasive carotid artery stenting in patients with carotid artery disease who have not displayed symptoms of stroke and who normally would be referred for surgery. An indication for this patient group could expand the market significantly. The *Xact* stent and *Emboshield* device were submitted to the FDA for approval in the second half of 2004, with an expected U.S. launch in 2005.

Abbott Spine: acquiring new technologies; preserving surgical options

In 2003, Abbott acquired Spinal Concepts (now called Abbott Spine), which offers a broad, highly innovative product portfolio. One example is *PathFinder*, which allows a surgeon to perform spinal procedures less invasively, reducing the recovery time associated with traditional operating techniques. Another Abbott Spine innovation, *InFix,* is a modular, interbody spacer that is assembled in the patient during the procedure, enabling the surgeon to more closely restore the patient's anatomy and provide stability to the lower spine.

As the spinal market transitions from fusion technologies to motion-preserving devices, Abbott Spine is advancing its pipeline to include emerging motion-preserving technologies, including dynamic stabilization and artificial discs. Abbott's 2004 acquisition of Spine Next S.A., provides access to exciting non-fusion technology. For example, the *Wallis System* is a novel spinal implant for treating degenerative disc disease without fusing the vertebrae. Currently available outside the U.S., Abbott will initiate U.S. clinical trials in 2005.

Abbott Animal Health: providing veterinary surgical products; improving animal care

For more than a decade, Abbott Animal Health has been applying Abbott's fundamental strengths in human health to advance veterinary medicine. With key branded products that include *SevoFlo, PropoFlo, HemaBlock* and *Nexaband*, our growth strategy is to expand our presence in the $5 billion companion animal market. Abbott offers a complete line of anesthesia and critical care products in the U.S. and in a number of international markets.

PathFinder Patient - Greensboro, North Carolina >

Pharmaceutical Products Group

Jeffrey M. Leiden, M.D., Ph.D.
President and Chief Operating Officer,
Pharmaceutical Products Group,
Chief Scientific Officer

In 2004, Abbott's Pharmaceutical Products Group, which combines a promising pipeline with a growing portfolio of leading brands, delivered another year of double-digit sales growth.

Humira is a biologic therapy used by patients around the world to reduce the often painful and disabling symptoms of rheumatoid arthritis (RA). *Humira* is easy to use — self administered at home just twice a month by pre-filled syringe.

Abbott is pursuing six additional indications for *Humira*, its biologic therapy marketed for RA. In 2004, we submitted regulatory applications for early RA and psoriatic arthritis.

- Early RA
- Psoriatic arthritis
- Psoriasis
- Crohn's disease
- Juvenile RA
- Ankylosing spondylitis

Synthroid remains the number-one-prescribed treatment for thyroid disease; millions of patients and physicians have relied on *Synthroid* for half a century.

Tarka is a combination calcium channel blocker and angiotensin-converting enzyme (ACE) inhibitor for reducing high blood pressure.

TriCor

Synthroid

Tarka

TriCor is the market-leading fibrate for reducing cholesterol and high triglycerides. We received FDA approval in 2004 for an improved *TriCor* that brings benefits to patients with certain lipid disorders. *TriCor* can now be taken with or without food, increasing convenience for patients.

Kaletra remains the world's most prescribed HIV protease inhibitor due to its excellent efficacy and long-term viral suppression. Data show that HIV patients new to therapy, taking a *Kaletra*-based regimen experienced no resistance through six years in clinical trials.

Kaletra

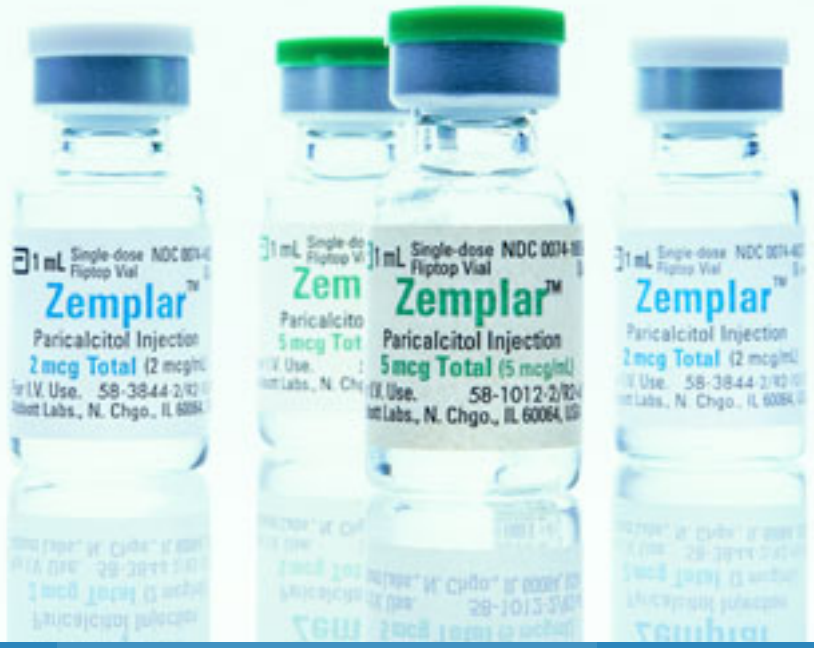
Biaxin XL

Omnicef

Biaxin XL is our antibiotic for the treatment of upper and lower respiratory tract infections.

Omnicef is one of the fastest-growing antibiotics on the market today.

Zemplar is an intravenous therapy for the treatment of secondary hyperparathyroidism, a complication associated with chronic kidney failure.



Depakote ER

Depakote ER, the once-a-day version of *Depakote*, is indicated for epilepsy and migraine prevention and is under FDA review for bipolar disorder. *Depakote* is a leading therapy for epilepsy and bipolar disorder, as well as a treatment for the prevention of migraine headaches.

Zemplar

Ultane

Ultane (Sevorane) is a unique inhalation anesthetic for inpatient and outpatient procedures for both children and adults.

Key Accomplishments in 2004

Pharmaceutical Products Group

Achieved double-digit sales growth in the Pharmaceutical Products Group

For the full year 2004, Abbott's global Pharmaceutical Products Group achieved more than 16 percent sales growth. Abbott's U.S. pharmaceuticals business has consistently achieved strong double-digit sales growth in each of the last four years. In 2004, we achieved full-year sales growth in the U.S. of nearly 16 percent.

Submitted seven regulatory applications to the U.S. Food and Drug Administration (FDA)

In 2004, we submitted seven regulatory applications to the FDA, including new drug applications for *Xinlay* for prostate cancer and *Zemplar Capsules* for secondary hyperparathyroidism; supplemental biologics license applications for two new *Humira* indications — early RA and psoriatic arthritis; and supplemental new drug applications for *Depakote ER* for bipolar disorder and *Kaletra* once-daily dosing. Our joint venture, TAP, also submitted a new drug application for febuxostat, for chronic gout.

Launched new *TriCor* for high triglycerides and cholesterol

We received FDA approval for an improved formulation of *TriCor*, which brings several benefits to patients with certain lipid disorders, including providing the same therapeutic benefit as the previous *TriCor*, but at a lower dose. Most importantly, *TriCor* can now be taken with or without food, increasing convenience for patients.

Continued the successful worldwide launch of *Humira*

Humira, a biologic therapy for treating the often painful and disabling symptoms of rheumatoid arthritis is now launched in nearly 60 countries around the world. Patient demand for *Humira* continues to exceed our expectations. We are pursuing six additional indications for *Humira* that could expand its potential benefit to thousands of patients.

Maintained *Synthroid* as the most prescribed thyroid therapy

Though generic competition to *Synthroid* emerged in 2004, patients and physicians continue to choose *Synthroid*. Millions of patients have relied on *Synthroid* for half a century; the product is one of the least expensive medications — branded or generic — on the market today.

Humira — Kiki Armijo was diagnosed with severe rheumatoid arthritis at the age of 20, halting the pursuit of her professional acting career. After developing resistance to another therapy, Kiki was prescribed *Humira*, and started feeling better within weeks of treatment.

Pharmaceuticals today: a vital, global business

Over the past five years, we transformed our pharmaceuticals business to focus on leading-edge science and novel, breakthrough medicines that improve patient health.

We have expanded our presence around the world and doubled our R&D capacity — instrumental in developing our self-sustaining, industry-competitive and balanced pipeline. With cutting-edge R&D capabilities in biologics and small molecules, Abbott combines the best tools in medical science to benefit millions of people.

Our research focuses on five disease areas: immunology; oncology; neuroscience and pain management; metabolics; and infectious diseases. Our emphasis on specialty-focused areas provides hope for patients, many of whom suffer from diseases, such as prostate cancer and congestive heart failure, which have not benefitted from new treatment options in decades. Our objective is straightforward: translating science into lasting contributions to improve health.

We're seeing the results in our performance. Abbott's U.S. pharmaceuticals business has consistently achieved strong double-digit sales growth in each of the last four years. We have numerous global brands that each have annual sales potential of more than $500 million, and a late-stage pipeline of novel products that offer considerable promise for patients.

Marketed products: a portfolio of performers

Abbott's core pharmaceutical franchises delivered solid results in 2004, including the success of *Humira, TriCor, Kaletra, Omnicef* and Mobic.

Humira: realizing its promise around the world

Humira is the latest treatment approved by the U.S. Food and Drug Administration (FDA) to control the signs and symptoms and slow the progression of rheumatoid arthritis (RA). A biologic therapy, *Humira* works by helping the body's immune system slow the inflammation process and stop joint deterioration. It's easy to use — *Humira* is self-administered at home just twice a month by pre-filled syringe.

After its initial approval in Europe, *Humira* is now approved in nearly 60 countries. Both physicians and patients outside of the United States are realizing the promise of biologics such as *Humira*, and the market is growing substantially as a result.

In the U.S., *Humira's* market share continues to climb — representing approximately 30 percent of new self-injectable prescriptions written for RA.

New *TriCor*: better benefits for patients

TriCor is Abbott's leading treatment for cholesterol and high triglycerides. At the end of 2004, we received FDA approval for an improved formulation of *TriCor* that brings benefits to patients with certain lipid disorders.

New *TriCor* was developed using nanoparticle technology, which allows the medicine to dissolve faster in the body for easier absorption. The new tablets are just as safe and effective as the previous tablets, but are now offered at a lower dosage strength. Most important, *TriCor* can now be taken with or without food, increasing convenience for patients.

In clinical trials, we are researching the benefits of *TriCor* in combination with existing lipid-lowering therapies. We expect that *TriCor* will remain a valuable therapy for years to come.

< *Humira* Patient - Los Angeles, California

TriCor — Suffering from diabetes for 35 years, Oralia Flores also has high cholesterol and triglycerides. Her cardiologist prescribed *TriCor* to help reduce her lipids. Most recently, Oralia switched to new *TriCor* tablets, which she takes in combination with a statin, further improving her lipid profile.

Kaletra: a leading HIV therapy worldwide

Kaletra remains the leading protease inhibitor treatment for HIV around the world. HIV can now be treated as a chronic disease, therefore, long-term viral suppression and tolerability are vital for patient compliance. *Kaletra* meets these criteria.

We presented data that showed HIV patients new to therapy taking a *Kaletra*-based regimen experienced no resistance through six years of therapy. And, the majority of these *Kaletra* patients maintained an undetectable amount of HIV in the blood. These results are important because resistance — what happens when a drug's performance against HIV is no longer effective — is the leading cause of HIV treatment failure. The data demonstrate *Kaletra's* ability to meet the pressing needs in HIV therapy for the long term. In addition, we submitted an application to regulatory authorities for once-daily dosing of *Kaletra* and in 2005 plan to file a regulatory application for a reduced pill count formulation, further improving patient convenience.

Additional therapies: contributing to patient health

Omnicef is one of the fastest-growing antibiotics in the U.S. We shared data that showed children taking *Omnicef* were more likely to finish their course of therapy and preferred the taste of *Omnicef* when compared to a leading competitive product. In 2004, the FDA approved a new 250 mg/5mL dosage, allowing parents to administer fewer teaspoons per dose to their children.

Tarka is a best-in-class combination therapy for hypertension. During the year, we obtained global manufacturing rights for *Tarka* and expanded our marketing rights to include all international markets, except Japan.

Depakote is a leading therapy for epilepsy and bipolar disorder, as well as a treatment for migraine headaches. *Depakote ER* is our once-daily formulation currently indicated for epilepsy and migraine headaches; we submitted a new drug application to the FDA for bipolar disorder at the end of 2004.

As anticipated, generic competition to *Synthroid*, our well-established thyroid medication, emerged in 2004. Nonetheless, patients and physicians continue to choose *Synthroid* despite the availability of generic therapies. In fact, the number of patients continuing on *Synthroid* exceeded our expectations — a testament to the brand's loyalty among patients and physicians. Millions of patients have relied on *Synthroid* for half a century; it is one of the least expensive medications — branded or generic — on the market today.

Demand for Mobic, a treatment for pain associated with osteoarthritis and rheumatoid arthritis, increased significantly in 2004 following the market withdrawal of a competitive pain product. Abbott distributes Mobic through its strategic alliance with Boehringer Ingelheim Pharmaceuticals, Inc.

In our TAP joint venture, both *Prevacid* and *Lupron* experienced challenging market dynamics in 2004. *Prevacid* treats acid reflux, the disease that causes heartburn. New products, such as *Prevacid SoluTab*, an orally dissolving tablet, and *Prevacid IV*, for the hospital market, are representative of efforts to enhance the leadership position of *Prevacid*.

Lupron is used to decrease the body's production of specific hormones. It treats advanced prostate cancer, as well as endometriosis, fibroids and early puberty. *Lupron* maintained its leading market share in 2004 due in part to product advantages, such as state-of-the-art time-release dosing and a delivery method that is more comfortable for patients.

Depakote ER — Alexander Deckard, a teenager who loves to fish, wasn't enjoying school because his epilepsy medication was interfering with his cognitive skills. Alexander switched to *Depakote ER*, and he is enjoying school once again.

Abbott science: providing hope for patients

The transformation of Abbott's Pharmaceutical Products Group has led to the success of our marketed products and to the quality of our pipeline. Through the advancement of leading-edge science, we will sustain our business for years to come. It's already yielding results — our late-stage pipeline is poised to deliver more than 10 new medicines or new indications in the next several years.

Humira's promise grows with additional indications

Currently marketed for rheumatoid arthritis (RA), *Humira* has the potential to treat several autoimmune diseases, such as psoriasis, a chronic skin disorder and Crohn's disease, inflammation of the gastrointestinal tract. Each of *Humira's* additional indications represents a relatively low-risk, late-stage opportunity to expand benefits to potentially thousands of new patients.

In 2004, we submitted data to the FDA for approval of two of these indications, psoriatic arthritis and early RA. Results for psoriatic arthritis show that *Humira* works rapidly, achieving significant improvement in signs and symptoms of both joints and skin. In early RA, we found that treatment with *Humira* in combination with methotrexate in patients who have had RA for less than three years provided favorable outcomes versus conventional therapy, treating the disease before irreversible joint damage occurs.

Abbott shared impressive clinical data throughout the year for several other indications, including psoriasis, juvenile RA, Crohn's disease and ankylosing spondylitis (arthritis of the spine). Highlights include *Humira* psoriasis data, which demonstrated relief of symptoms and improvement in severity of the disease. *Humira* also showed strong potential for the treatment of Crohn's disease.

Oncology: new hope for men with prostate cancer

Xinlay is a novel, oral, once-daily, investigational treatment for prostate cancer, a disease for which there are very few treatment options available. About 230,000 men in the U.S. this year will be diagnosed with prostate cancer and nearly 30,000 will die from the disease.

Xinlay is a non-hormonal, non-chemotherapy agent designed to inhibit endothelin, a protein in the body that signals prostate cancer cells to grow and spread. Late in 2004, we submitted a new drug application to the FDA seeking approval for the use of *Xinlay* in men with advanced (metastatic), hormone-refractory prostate cancer. A second trial is underway studying *Xinlay* in men with less advanced (non-metastatic) disease. We are also evaluating its role in early prostate cancer prior to hormone therapy and other cancer types.

Other cancer compounds progressing in the pipeline include ABT-510, a first-in-class angiogenesis inhibitor to delay tumor growth, and ABT-751, an anti-mitotic, which inhibits the replication of cancer cells by interfering with cell division.

Zemplar Capsules: treating a growing epidemic

More than 20 million Americans have chronic kidney disease and an additional 20 million are at risk, creating what the National Institutes of Health describes as a "growing epidemic." When kidneys begin to fail, they lose their ability to activate vitamin D obtained through diet and other sources. As a result, many kidney patients develop secondary hyperparathyroidism (SHPT) which, if left untreated, can affect vital organs and cause bone disease.

Zemplar Capsules is a promising treatment we submitted for regulatory approval in the summer of 2004 for the treatment of SHPT in stage three and four chronic kidney disease (CKD) patients (before they require dialysis). Physicians today have

< *Depakote ER* Patient - St. Louis, Missouri

Tarka — In Jose Villanuova's family, diabetes and high blood pressure are prevalent. So, after he was diagnosed with diabetes 15 years ago, Jose got serious about improving his health. He started eating better and exercising. And he was prescribed *Tarka* to reduce his high blood pressure.

limited options to treat this stage of the disease. Abbott shared pivotal clinical trial data in 2004 showing patients treated with *Zemplar Capsules* had a significant and sustained reduction in parathyroid hormone levels.

Zemplar Capsules is an oral formulation of *IV Zemplar*, which is currently marketed for stage five (end-stage) kidney disease patients with SHPT who require dialysis. *IV Zemplar* is considered the standard of care in the U.S. for dialysis patients with SHPT.

Promising science: additional medical advances to improve health

Also in development is ABT-874, a fully human anti-interleukin-12 (IL-12) monoclonal antibody Abbott is evaluating for the treatment of multiple sclerosis, psoriasis and Crohn's disease. Designed to target and neutralize IL-12, a protein known to mediate inflammation, ABT-874 has the additional advantage of convenient, self-injection dosing.

Simdax (levosimendan), a calcium sensitizing agent with vasodilatory properties, is a novel therapy for the treatment of decompensated heart failure. It is approved in several countries outside of the U.S. and is in late-stage clinical development in the U.S. and Europe. Clinical studies are underway to evaluate its ability to relieve heart failure symptoms.

We plan to communicate new late-stage data on *Simdax* in the second half of 2005. A study evaluating a potential mortality benefit for levosimendan is currently underway with heart failure patients in Europe, which could expand the product's usage.

We have several other therapies in early development at Abbott. These include compounds for the treatment of pain and cognitive disorders such as Alzheimer's disease and schizophrenia; as well as treatments for infectious diseases, such as hepatitis C; and early work in diabetes and metabolics.

Two important treatments in late-stage development at TAP

Febuxostat, in development at TAP, our joint venture with Takeda Pharmaceutical Company Ltd., is expected to represent a new choice for the treatment of high uric acid levels associated with gout. Gout is a chronic condition in which excessive uric acid accumulates in the joints, forming crystals and causing painful inflammation. There have been no new treatments for chronic gout in almost 40 years in the U.S.

In clinical trials, febuxostat was found to be effective in the treatment of gout patients with high uric acid levels. Submitted to the FDA at the end of 2004, TAP hopes to launch this important new medicine in 2005.

Another TAP compound, asoprisnil, is an oral medication that could change the way women are treated for uterine fibroids. Fibroids affect up to 40 percent of women of child-bearing age, and currently surgery is the primary treatment option. Asoprisnil seeks to reduce the size of fibroids and menstrual bleeding. TAP expects to submit asoprisnil for FDA approval in 2005.

As we realize the promise of our late-stage pipeline, our global R&D organization continues to pioneer new technologies to serve patients. Today, Abbott is poised to introduce more new products in the coming years than ever before.

Expanding Patient Access

Expanding access to those in need — the poor, the uninsured and the elderly — was the focus of our citizenship efforts in 2004.

"I want us to be as passionate about finding solutions to the problems of access as we are about the breakthrough discoveries that make the issue of access so important. In the final analysis, the life-saving, life-enhancing therapies and medicines we provide should be available to everyone who needs them." *Miles D. White, Chairman of the Board and Chief Executive Officer*

Access to medicines

We help patients access our products through our Patient Assistance Program and *Humira* Medicare Assistance Program, which provided more than 200,000 patients in financial need with free medicine valued at more than $235 million in 2004. We also expanded our Medicare assistance coverage this year to include cost savings on Abbott medicines for chronic conditions, including thyroid disease, high blood pressure, high cholesterol, epilepsy and bipolar disorder.

Abbott participates in industry-wide efforts to help low-income, uninsured or underinsured patients access free or discounted medications. We joined with major pharmaceutical companies to launch the Partnership for Prescription Assistance (PPA) and various state product access initiatives. These programs are designed to educate patients on the more than 275 public and private patient-assistance programs supported by the industry. More information on PPA can be found at **www.pparx.org**.

We continue to participate in the Together Rx program, which has provided 1.4 million qualified seniors with discounts on drugs valued at more than $575 million through 2004. We also participate in Together Rx Access, which provides the uninsured with discounts on more than 275 drugs.

Fighting HIV/AIDS globally

Abbott and the Abbott Fund are investing $100 million over five years in programs that help developing countries fight HIV/AIDS. These programs, known as the Abbott Global Care Initiatives, take a comprehensive approach to combat stigma and discrimination; expand access to testing and treatment; prevent mother-to-child transmission of HIV; strengthen health care infrastructure; and deliver services to orphans impacted by HIV/AIDS.

For example, through the *Step Forward* program in India, the Abbott Fund collaborated with the International HIV/AIDS Alliance to provide home-based care, education, nutrition, counseling and vocational training to more than 47,000 children and families. Overall, more than 130,000 children and families in India, Romania, Tanzania and Burkina Faso received services through *Step Forward* in 2004.

Our Tanzania Care program is aimed at modernizing the country's public health care facilities and systems, and improving services and access to care for people living with HIV/AIDS.

Our work includes the construction of a modern outpatient treatment center and the renovation of a state-of-the-art laboratory at Muhimbili National Hospital in Dar es Salaam. Both will be operational in 2005. Counseling and HIV testing services and facilities have been introduced at 77 urban and rural locations throughout Tanzania.

Tsunami relief efforts

During the year, we responded to humanitarian crises, including disaster relief, special medical missions and product donations valued at $46 million to assist individuals in 84 countries. In December 2004 and January 2005, Abbott donated $5.5 million in funds, prescription medicines and nutritionals to aid victims of the earthquake and tsunami in Asia and Africa.

For more information visit **www.abbott.com/citizenship** and read our global citizenship report.

After losing their parents to AIDS, 5-year-old Sarojini and her 7-year-old brother Gopi were adopted by a family in their community in Tenali, Andrea Pradesh, India. Partnering with local agencies, the Abbott Fund's *Step Forward* program is supporting groundbreaking efforts to introduce adoption and foster care initiatives for children affected by HIV/AIDS in India.

2004 Financial Report

Consolidated Statement of Earnings

(dollars and shares in thousands except per share data)

Year Ended December 31	2004	2003	2002
Net Sales	$19,680,016	$17,280,333	$15,279,537
Cost of products sold	8,884,157	7,774,239	6,820,501
Research and development	1,696,753	1,623,752	1,474,537
Acquired in-process research and development	279,006	100,240	107,700
Selling, general and administrative	4,921,780	4,808,090	3,724,855
Total Operating Cost and Expenses	15,781,696	14,306,321	12,127,593
Operating Earnings	3,898,320	2,974,012	3,151,944
Net interest expense	149,087	146,365	205,479
(Income) from TAP Pharmaceutical Products Inc. joint venture	(374,984)	(580,950)	(666,773)
Net foreign exchange (gain) loss	29,059	57,048	71,184
Other (income) expense, net	(30,442)	(35,602)	221,067
Earnings from Continuing Operations Before Taxes	4,125,600	3,387,151	3,320,987
Taxes on Earnings from Continuing Operations	949,764	882,426	773,982
Earnings from Continuing Operations	3,175,836	2,504,725	2,547,005
Earnings from Discontinued Operations, net of taxes	60,015	248,508	246,698
Net Earnings	$ 3,235,851	$ 2,753,233	$ 2,793,703
Basic Earnings Per Common Share —			
Continuing Operations	$ 2.03	$ 1.60	$ 1.63
Discontinued Operations	0.04	0.16	0.16
Net Earnings	$ 2.07	$ 1.76	$ 1.79
Diluted Earnings Per Common Share —			
Continuing Operations	$ 2.02	$ 1.59	$ 1.62
Discontinued Operations	0.04	0.16	0.16
Net Earnings	$ 2.06	$ 1.75	$ 1.78
Average Number of Common Shares Outstanding			
Used for Basic Earnings Per Common Share	1,560,557	1,562,815	1,560,956
Dilutive Common Stock Options	10,054	9,054	12,337
Average Number of Common Shares Outstanding			
Plus Dilutive Common Stock Options	1,570,611	1,571,869	1,573,293
Outstanding Common Stock Options Having No Dilutive Effect	44,005	57,706	22,588

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Cash Flows

(dollars in thousands)

Year Ended December 31	2004	2003	2002
Cash Flow From (Used in) Operating Activities of Continuing Operations:			
Net earnings	$ 3,235,851	$ 2,753,233	$ 2,793,703
Less: Earnings from discontinued operations, net of taxes	60,015	248,508	246,698
Earnings from continuing operations	3,175,836	2,504,725	2,547,005
Adjustments to reconcile earnings from continuing operations to net cash from operating activities of continuing operations —			
Depreciation	840,591	769,403	705,785
Amortization of intangibles	448,109	358,036	337,838
Acquired in-process research and development	279,006	100,240	107,700
Investing and financing (gains) losses, net	47,400	76,755	93,523
Trade receivables	(588,575)	(121,702)	(142,781)
Inventories	(285,328)	101,360	(156,580)
Prepaid expenses and other assets	(431,436)	(333,858)	280,522
Trade accounts payable and other liabilities	602,605	(131,809)	93,268
Income taxes payable	217,815	62,084	(212,764)
Net Cash From Operating Activities of Continuing Operations	4,306,023	3,385,234	3,653,516
Cash Flow From (Used in) Investing Activities of Continuing Operations:			
Acquisitions of businesses, net of cash acquired	(2,327,821)	(497,914)	(585,999)
Acquisitions of property and equipment	(1,291,633)	(1,050,058)	(1,105,445)
Purchases of investment securities	(543,292)	(289,432)	(156,078)
Proceeds from sales of investment securities	224,923	333,757	140,284
Other	14,433	66,465	16,570
Net Cash (Used in) Investing Activities of Continuing Operations	(3,923,390)	(1,437,182)	(1,690,668)
Cash Flow From (Used in) Financing Activities of Continuing Operations:			
Proceeds from (repayments of) commercial paper, net	813,000	(814,000)	(1,306,000)
Proceeds from issuance of long-term debt, net	1,500,000	688,643	—
Repayment of long-term debt	(1,650,000)	—	—
Other borrowing transactions, net	142,998	(342,570)	286,872
Purchases of common shares	(499,745)	(97,617)	—
Proceeds from stock options exercised	155,197	75,035	137,004
Dividends paid	(1,599,770)	(1,515,703)	(1,427,850)
Net Cash (Used in) Financing Activities of Continuing Operations	(1,138,320)	(2,006,212)	(2,309,974)
Effect of exchange rate changes on cash and cash equivalents	184,271	180,971	55,627
Discontinued Operations:			
Net cash provided by discontinued operations	101,920	167,863	338,571
Financing activities of discontinued operations	700,000	—	—
Net cash provided by discontinued operations	801,920	167,863	338,571
Net Increase in Cash and Cash Equivalents	230,504	290,674	47,072
Cash and Cash Equivalents, Beginning of Year	995,124	704,450	657,378
Cash and Cash Equivalents, End of Year	$ 1,225,628	$ 995,124	$ 704,450

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Balance Sheet

(dollars in thousands)

December 31	2004	2003	2002
Assets			
Current Assets:			
Cash and cash equivalents	$ 1,225,628	$ 995,124	$ 704,450
Investment securities	833,334	291,297	261,677
Trade receivables, less allowances of —			
2004: $231,704; 2003: $259,514; 2002: $198,116	3,696,115	3,313,377	2,927,370
Inventories —			
Finished products	1,488,939	1,467,441	1,274,760
Work in process	582,787	545,977	563,659
Materials	548,737	725,021	602,883
Total inventories	2,620,463	2,738,439	2,441,302
Deferred income taxes	1,031,746	1,165,259	1,022,861
Other prepaid expenses and receivables	1,080,143	1,110,885	1,097,690
Assets held for sale	247,056	—	—
Total Current Assets	10,734,485	9,614,381	8,455,350
Investment Securities	145,849	406,357	250,779
Property and Equipment, at Cost:			
Land	338,428	356,757	335,566
Buildings	2,519,492	2,662,023	2,387,583
Equipment	8,681,655	9,479,044	8,790,209
Construction in progress	962,114	792,923	634,315
	12,501,689	13,290,747	12,147,673
Less: accumulated depreciation and amortization	6,493,815	7,008,941	6,319,551
Net Property and Equipment	6,007,874	6,281,806	5,828,122
Intangible Assets, net of amortization	5,171,594	4,089,882	3,919,248
Goodwill	5,685,124	4,449,408	3,732,533
Investments in Joint Ventures, Deferred Income Taxes and Other Assets	952,929	1,197,474	1,406,648
Assets Held for Sale	69,639	—	—
	$28,767,494	$26,039,308	$23,592,680

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Balance Sheet

(dollars in thousands)

December 31	2004	2003	2002
Liabilities and Shareholders' Investment			
Current Liabilities:			
Short-term borrowings	$ 1,836,649	$ 828,092	$ 1,927,543
Trade accounts payable	1,054,464	1,078,333	995,228
Salaries, wages and commissions	637,333	625,525	579,689
Other accrued liabilities	2,491,956	2,180,098	2,202,477
Dividends payable	405,730	383,352	367,345
Income taxes payable	156,417	158,836	42,387
Current portion of long-term debt	156,034	1,709,265	221,111
Liabilities of operations held for sale	87,061	—	—
Total Current Liabilities	6,825,644	6,963,501	6,335,780
Long-term Debt	4,787,934	3,452,329	4,273,973
Post-employment Obligations and Other Long-term Liabilities	2,606,410	2,551,220	2,318,374
Liabilities of Operations Held for Sale	1,644	—	—
Deferred Income Taxes	220,079	—	—
Commitments and Contingencies			
Shareholders' Investment:			
Preferred shares, one dollar par value			
Authorized — 1,000,000 shares, none issued	—	—	—
Common shares, without par value			
Authorized — 2,400,000,000 shares			
Issued at stated capital amount —			
Shares: 2004: 1,575,147,418;			
2003: 1,580,247,227; 2002: 1,578,944,551	3,239,575	3,034,054	2,891,266
Common shares held in treasury, at cost —			
Shares: 2004: 15,123,800;			
2003: 15,729,296; 2002: 15,876,449	(220,854)	(229,696)	(231,845)
Unearned compensation — restricted stock awards	(50,110)	(56,336)	(76,472)
Earnings employed in the business	10,033,440	9,691,484	8,601,386
Accumulated other comprehensive income (loss)	1,323,732	632,752	(519,782)
Total Shareholders' Investment	14,325,783	13,072,258	10,664,553
	$28,767,494	$26,039,308	$23,592,680

Consolidated Statement of Shareholders' Investment

(dollars in thousands except per share data)

Year Ended December 31	2004	2003	2002
Common Shares:			
Beginning of Year			
Shares: 2004: 1,580,247,227; 2003: 1,578,944,551; 2002: 1,571,816,976	$ 3,034,054	$ 2,891,266	$ 2,643,443
Issued under incentive stock programs			
Shares: 2004: 6,811,550; 2003: 4,186,710; 2002: 7,331,098	208,880	118,119	202,741
Tax benefit from option shares and vesting of			
restricted stock awards (no share effect)	22,871	29,980	46,755
Retired — Shares: 2004: 11,911,359; 2003: 2,884,034; 2002: 203,523	(26,230)	(5,311)	(1,673)
End of Year			
Shares: 2004: 1,575,147,418; 2003: 1,580,247,227; 2002: 1,578,944,551	$ 3,239,575	$ 3,034,054	$ 2,891,266
Common Shares Held in Treasury:			
Beginning of Year			
Shares: 2004: 15,729,296; 2003: 15,876,449; 2002: 17,286,684	$ (229,696)	$ (231,845)	$ (252,438)
Issued under incentive stock programs			
Shares: 2004: 605,496; 2003: 147,153; 2002: 1,410,235	8,842	2,149	20,593
End of Year			
Shares: 2004: 15,123,800; 2003: 15,729,296; 2002: 15,876,449	$ (220,854)	$ (229,696)	$ (231,845)
Unearned Compensation — Restricted Stock Awards:			
Beginning of Year	$ (56,336)	$ (76,472)	$ (18,258)
Issued at market value —			
Shares: 2004: 589,000; 2003: 130,000; 2002: 1,396,000	(25,528)	(5,429)	(78,835)
Lapses — Shares: 2004: 57,899; 2002: 25,105	3,029	—	1,362
Amortization	28,725	25,565	19,259
End of Year	$ (50,110)	$ (56,336)	$ (76,472)
Earnings Employed in the Business:			
Beginning of Year	$ 9,691,484	$ 8,601,386	$ 7,281,395
Net earnings	3,235,851	2,753,233	2,793,703
Cash dividends declared on common shares			
(per share — 2004: $1.04; 2003: $.98; 2002: $.94)	(1,622,148)	(1,531,710)	(1,468,643)
Spin-off of Hospira, Inc.	(761,916)	—	—
Cost of common shares retired in excess of stated capital amount	(527,197)	(135,390)	(64,066)
Cost of treasury shares issued below market value	17,366	3,965	58,997
End of Year	$10,033,440	$ 9,691,484	$ 8,601,386
Accumulated Other Comprehensive Income (Loss):			
Beginning of Year	$ 632,752	$ (519,782)	$ (594,710)
Other comprehensive income and spin-off of Hospira, Inc.	690,980	1,152,534	74,928
End of Year	$ 1,323,732	$ 632,752	$ (519,782)

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

Note 1 — Summary of Significant Accounting Policies

Nature of Business — Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products.

Concentration of Risk and Guarantees — Due to the nature of its operations, Abbott is not subject to significant concentration risks relating to customers, products or geographic locations, except that three U.S. wholesalers accounted for 20 percent of trade receivables as of December 31, 2004 and 2003 and 22 percent of trade receivables as of December 31, 2002. Product warranties are not significant.

Abbott has no material exposures to off-balance sheet arrangements; no special purpose entities; nor activities that include non-exchange-traded contracts accounted for at fair value. Abbott has periodically entered into agreements in the ordinary course of business, such as assignment of product rights, with other companies which has resulted in Abbott becoming secondarily liable for obligations that Abbott was previously primarily liable. Since Abbott no longer maintains a business relationship with the other parties, Abbott is unable to develop an estimate of the maximum potential amount of future payments under these obligations. Based upon past experience, the likelihood of payments under these agreements is remote. In addition, Abbott periodically acquires small companies in which Abbott agrees to pay contingent consideration based on attaining certain thresholds.

Basis of Consolidation — The consolidated financial statements include the accounts of the parent company and subsidiaries, after elimination of intercompany transactions. The accounts of foreign subsidiaries are consolidated as of November 30, due to the time needed to consolidate these subsidiaries. No events occurred related to these foreign subsidiaries in December 2004, 2003 and 2002 that materially affected the financial position or results of operations.

Use of Estimates — The financial statements have been prepared in accordance with generally accepted accounting principles in the United States and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts. Significant estimates include amounts for sales rebates, income taxes, pension and other post-employment benefits, valuation of intangibles, litigation, stock compensation, and inventory and accounts receivable exposures.

Revenue Recognition — Revenue from product sales is recognized upon passage of title and risk of loss to customers (when product is delivered to common carrier for shipment to domestic customers). Provisions for discounts, rebates and sales incentives to customers, and returns and other adjustments are provided for in the period the related sales are recorded. Sales incentives to customers are not material. Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales. Revenue from the launch of a new product, from an improved version of an existing product, or for shipments in excess of a customer's normal requirements are recorded when the conditions noted above are met. In those situations, management records a returns reserve for such revenue, if necessary. Sales of product rights for marketable products are recorded as revenue upon disposition of the rights. Revenue from license of product rights, or for performance of research or selling activities, is recorded over the periods earned.

Income Taxes — Deferred income taxes are provided for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements at the enacted statutory rate to be in effect when the taxes are paid. U.S. income taxes are provided on those earnings of foreign subsidiaries and subsidiaries operating in Puerto Rico under tax incentive grants, which are intended to be remitted to the parent company. Except for dividends that will be remitted under the American Jobs Creation Act of 2004, deferred income taxes are not provided on undistributed earnings reinvested indefinitely in foreign subsidiaries as working capital and plant and equipment. Loss contingency provisions are recorded for the estimated amount of audit settlements under the provisions of Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies."

Pension and Post-Employment Benefits — Abbott accrues for the actuarially determined cost of pension and post-employment benefits over the service attribution periods of the employees. With the assistance of outside actuaries, Abbott must develop long-term assumptions, the most significant of which are the health care costs trend rate, discount rate and the expected return on plan assets. Differences between the expected long-term return on plan assets and the actual annual return are amortized over a five-year period. Unrecognized actuarial losses and gains are amortized over the remaining service attribution periods of the employees under the corridor method.

Valuation of Intangible Assets — Purchased intangible assets are recorded at fair value. The fair value of significant purchased intangible assets is based on independent appraisals. Abbott uses a discounted cash flow model to value intangible assets. The discounted cash flow model requires assumptions about the timing and amount of future net cash inflows, risk, the cost of capital and terminal values. Intangible assets and goodwill are reviewed for impairment at least on a quarterly and annual basis, respectively.

Stock-Based Compensation — Abbott measures compensation cost using the intrinsic value-based method of accounting for stock options and replacement stock options granted to employees. In December 2004, the Financial Accounting Standards Board issued a revised SFAS No. 123, "Share Based Payment," which requires that fair value be recorded in the results of operations beginning no later than July 1, 2005. Restricted stock awards are amortized over their vesting period with a charge to compensation expense.

Litigation — Abbott accounts for litigation losses in accordance with SFAS No. 5. Under SFAS No. 5, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded.

Notes to Consolidated Financial Statements

Cash, Cash Equivalents and Investment Securities — Cash equivalents consist of time deposits and certificates of deposit with original maturities of three months or less. Investments in marketable equity securities are classified as available-for-sale and are recorded at fair value with any unrealized holding gains or losses, net of tax, included in Accumulated other comprehensive income (loss). Investments in equity securities that are not traded on public stock exchanges are recorded at cost. Abbott monitors equity investments for other than temporary declines in fair value and charges impairment losses to income when an other than temporary decline in estimated value occurs. Investments in debt securities are classified as held-to-maturity, as management has both the intent and ability to hold these securities to maturity, and are reported at cost, net of any unamortized premium or discount. Income relating to these securities is reported as a component of interest income.

Inventories — Inventories are stated at the lower of cost (first-in, first-out basis) or market. Cost includes material and conversion costs.

Property and Equipment — Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. The following table shows estimated useful lives of property and equipment:

Classification	Estimated Useful Lives
Buildings	10 to 50 years (average 27 years)
Equipment	3 to 20 years (average 11 years)

Product Liability — Provisions are made for probable losses that are not covered by product liability insurance. Abbott carries third-party insurance coverage in amounts that reflect historical loss experience, which does not include coverage for catastrophic losses.

Translation Adjustments — For foreign operations in highly inflationary economies, translation gains and losses are included in Net foreign exchange (gain) loss. For remaining foreign operations, translation adjustments are included as a component of Accumulated other comprehensive income (loss).

Research and Development Costs — Internal research and development costs are expensed as incurred. Clinical trial costs incurred by third parties are expensed as the contracted work is performed. Where contingent milestone payments are due to third parties under research and development arrangements, the milestone payment obligations are expensed when the milestone results are achieved.

Reclassifications — The income and cash flows of Hospira and direct transaction costs of the spin-off have been presented as discontinued operations in the Consolidated Statement of Earnings and Statement of Cash Flows. Prior years' balance sheets have not been adjusted to reflect the effect of the spin-off. In addition, Other prepaid expenses and receivables and Trade accounts payable related to TAP's trade accounts receivable as of December 31, 2003 and 2002 have been reclassified to conform to the December 31, 2004 classification.

Note 2 — Supplemental Financial Information

(dollars in thousands)

Other Accrued Liabilities	2004	2003	2002
Accrued rebates payable to government agencies	$ 519,653	$ 381,898	$ 288,076
Accrued other rebates (a)	202,363	212,459	205,489
All other	1,769,940	1,585,741	1,708,912
Total	$ 2,491,956	$2,180,098	$2,202,477

(a) Accrued wholesaler chargeback rebates of $72,634, $81,292 and $81,017 at December 31, 2004, 2003 and 2002, respectively, are netted in trade receivables. Accrued wholesaler chargeback rebates are netted in trade receivables because Abbott's customers are invoiced at a higher catalog price but only remit to Abbott their contract price for the products.

Post-employment Obligations and Other Long-term Liabilities	2004	2003	2002
Accrued post-employment medical and dental costs	$ 747,406	$ 797,127	$ 746,352
Minimum pension liability adjustments	577,432	498,008	342,874
All other	1,281,572	1,256,085	1,229,148
Total	$ 2,606,410	$2,551,220	$2,318,374

Net Interest Expense	2004	2003	2002
Interest expense	$ 200,206	$ 188,288	$ 238,945
Interest income	(51,119)	(41,923)	(33,466)
Total	$ 149,087	$ 146,365	$ 205,479

Comprehensive Income, net of tax	2004	2003	2002
Foreign currency translation adjustments	$ 861,139	$1,162,004	$ 327,680
Minimum pension liability adjustments, net of taxes of $45,690 in 2004, $57,219 in 2003 and $115,992 in 2002	(75,947)	(99,155)	(203,182)
Unrealized (losses) gains on marketable equity securities	(43,613)	106,673	(20,307)
Net (losses) gains on derivative instruments designated as cash flow hedges	(39,951)	3,550	(28,774)
Reclassification adjustments for realized (gains)	(30,547)	(20,538)	(489)
Other comprehensive income	671,081	1,152,534	74,928
Net Earnings	3,235,851	2,753,233	2,793,703
Comprehensive Income	$ 3,906,932	$3,905,767	$2,868,631

Supplemental Comprehensive Income Information, net of tax	2004	2003	2002
Cumulative foreign currency translation (gain) loss adjustments	$(1,714,901)	$ (853,762)	$ 308,242
Cumulative minimum pension liability adjustments	355,103	302,337	203,182
Cumulative unrealized (gains) on marketable equity securities	(17,701)	(95,143)	(9,008)
Cumulative losses on derivative instruments designated as cash flow hedges	53,767	13,816	17,366

Supplemental Cash Flow Information	2004	2003	2002
Income taxes paid	$ 675,728	$ 832,380	$ 880,569
Interest paid	197,554	207,045	265,698

Notes to Consolidated Financial Statements

Note 3 — Investment Securities

(dollars in thousands)

The following is a summary of investment securities at December 31:

Current Investment Securities	2004	2003	2002
Time deposits and certificates of deposit	$833,334	$291,297	$120,000
Other	—	—	141,677
Total	$833,334	$291,297	$261,677

Long-term Investment Securities	2004	2003	2002
Equity securities	$125,541	$381,053	$222,667
Other	20,308	25,304	28,112
Total	$145,849	$406,357	$250,779

Abbott reviews the carrying value of investments in equity securities each quarter to determine whether an other than temporary decline in market value exists. Abbott considers factors affecting the investee, factors affecting the industry the investee operates in, and general equity market trends. Abbott considers the length of time an investment's market value has been below carrying value and the near-term prospects for recovery to carrying value. When Abbott determines that an other than temporary decline has occurred, the investment is written down with a charge to Other (income) expense, net. Other (income) expense, net for 2002 includes a charge of $193,862 for an other than temporary decline in the market value of certain equity securities.

Gross unrealized holding gains (losses) on current and long-term held-to-maturity investment securities totaled $1,200 and $(900), respectively, at December 31, 2004; $1,400 and $(2,200), respectively, at December 31, 2003; and $1,500 and $(8,500), respectively, at December 31, 2002. Gross unrealized holding gains (losses) on available-for-sale equity securities totaled $30,800 and $(1,100), respectively, at December 31, 2004; $162,700 and $(4,000), respectively, at December 31, 2003; and $24,400 and $(9,200), respectively, at December 31, 2002.

Note 4 — Financial Instruments and Derivatives

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts, totaling $984 million, $602 million and $857 million at December 31, 2004, 2003 and 2002, respectively, are designated as cash flow hedges of the variability of the cash flows due to changes in foreign exchange rates. Abbott records the contracts at fair value, resulting in charges of $40.0 million and $28.8 million to Accumulated other comprehensive income (loss) in 2004 and 2002, respectively, and a $3.6 million credit to Accumulated other comprehensive income (loss) in 2003. No hedge ineffectiveness was recorded in income in 2004, 2003 or 2002. Accumulated gains and losses as of December 31, 2004 will be included in Cost of products sold at the time the products are sold, generally through the end of 2005.

Abbott enters into foreign currency forward exchange contracts to manage currency exposures for foreign currency denominated third-party trade payables and receivables, and for intercompany loans and trade accounts payable where the receivable or payable is denominated in a currency other than the functional currency of the entity. For intercompany loans, the contracts require Abbott to sell or buy foreign currencies, primarily European currencies and Japanese yen, in exchange for primarily U.S. dollars and other European currencies. For intercompany and trade payables and receivables, the currency exposures are primarily the U.S. dollar, European currencies and Japanese yen. These contracts are recorded at fair value, with the resulting gains or losses reflected in income as Net foreign exchange (gain) loss. At December 31, 2004, 2003 and 2002, Abbott held $3.3 billion, $3.0 billion and $1.9 billion, respectively, of such foreign currency forward exchange contracts.

Abbott is a party to interest rate hedge contracts totaling $3.1 billion to manage its exposure to changes in the fair value of $3.1 billion of fixed-rate debt due July 2006 through March 2014. These contracts are designated as fair value hedges of the variability of the fair value of fixed-rate debt due to changes in the long-term benchmark interest rates. The effect of the hedge is to change a fixed-rate interest obligation to a variable rate for that portion of the debt. Abbott records the contracts at fair value and adjusts the carrying amount of the fixed-rate debt by an offsetting amount. No hedge ineffectiveness was recorded in income in 2004, 2003 and 2002.

The carrying values and fair values of certain financial instruments as of December 31 are shown in the table below. The carrying values of all other financial instruments approximate their estimated fair values. Fair value is the quoted market price of the instrument held or the quoted market price of a similar instrument. The counter parties to financial instruments consist of select major international financial institutions. Abbott does not expect any losses from nonperformance by these counter parties.

(dollars in millions)	2004		2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment Securities:						
Current	$ 833.3	$ 833.3	$ 291.3	$ 291.3	$ 261.7	$ 259.4
Long-term:						
Available-for-Sale Equity Securities	125.5	125.5	381.1	381.1	222.7	222.7
Other	20.3	20.6	25.3	24.5	28.1	23.4
Total Long-term Debt	(4,944.0)	(5,012.6)	(5,161.6)	(5,407.2)	(4,495.1)	(4,640.4)
Foreign Currency Forward Exchange Contracts:						
(Payable) position	(117.1)	(117.1)	(33.3)	(33.3)	(34.3)	(34.3)
Receivable position	37.2	37.2	3.0	3.0	16.5	16.5
Interest Rate Hedge Contracts	(3.7)	(3.7)	128.7	128.7	160.2	160.2

Notes to Consolidated Financial Statements

Note 5 — Post-Employment Benefits

(dollars in thousands)

Retirement plans consist of defined benefit, defined contribution, and medical and dental plans. Information for Abbott's major defined benefit plans and post-employment medical and dental benefit plans is as follows:

	Defined Benefit Plans			Medical and Dental Plans		
	2004	2003	2002	2004	2003	2002
Projected benefit obligations, January 1	$ 4,646,321	$ 3,748,425	$ 3,240,523	$ 1,241,845	$ 1,286,831	$ 963,411
Service cost — benefits earned during the year	187,146	192,529	172,191	34,628	43,737	40,541
Interest cost on projected benefit obligations	253,249	247,117	225,509	64,054	69,365	74,093
Losses (gains), primarily changes in discount and medical trend rates, plan design changes, law changes and differences between actual and estimated health care costs	174,669	497,468	220,789	(44,707)	(100,158)	269,841
Benefits paid	(191,543)	(169,560)	(144,010)	(67,232)	(57,930)	(61,055)
Spin-off of Hospira	(425,069)	—	—	(116,464)	—	—
Other, primarily foreign currency translation	108,452	130,342	33,423	—	—	—
Projected benefit obligations, December 31	$ 4,753,225	$ 4,646,321	$ 3,748,425	$ 1,112,124	$ 1,241,845	$ 1,286,831
Plans' assets at fair value, January 1, principally listed securities	$ 3,017,732	$ 2,373,415	$ 2,643,704	$ —	$ —	$ 293
Actual return on plans' assets	285,794	441,307	(310,375)	—	—	—
Company contributions	565,909	309,473	162,872	67,232	57,930	60,762
Benefits paid	(191,543)	(169,560)	(144,010)	(67,232)	(57,930)	(61,055)
Spin-off of Hospira	(262,109)	—	—	—	—	—
Other, primarily foreign currency translation	49,883	63,097	21,224	—	—	—
Plans' assets at fair value, December 31	$ 3,465,666	$ 3,017,732	$ 2,373,415	$ —	$ —	$ —
Projected benefit obligations greater than plans' assets, December 31	$(1,287,559)	$(1,628,589)	$(1,375,010)	$(1,112,124)	$(1,241,845)	$(1,286,831)
Unrecognized actuarial losses, net	1,494,915	1,436,013	1,113,143	587,976	718,215	568,340
Unrecognized prior service cost	(5,835)	13,575	15,047	(285,659)	(334,662)	(77,861)
Net prepaid (accrued) benefit cost	$ 201,521	$ (179,001)	$ (246,820)	$ (809,807)	$ (858,292)	$ (796,352)
Accrued benefit cost	$ (617,533)	$ (883,358)	$ (741,449)	$ (809,807)	$ (858,292)	$ (796,352)
Prepaid benefit cost	241,622	206,349	151,755	—	—	—
Intangible assets	17,261	22,460	23,700	—	—	—
Accumulated other comprehensive income (loss)	560,171	475,548	319,174	—	—	—
Net prepaid (accrued) benefit cost	$ 201,521	$ (179,001)	$ (246,820)	$ (809,807)	$ (858,292)	$ (796,352)
Service cost — benefits earned during the year	$ 187,146	$ 192,529	$ 172,191	$ 34,628	$ 43,737	$ 40,541
Interest cost on projected benefit obligations	253,249	247,117	225,509	64,054	69,365	74,093
Expected return on plans' assets	(295,294)	(288,454)	(282,721)	—	—	—
Net amortization	30,809	6,452	4,340	5,650	6,768	10,491
Total cost	175,910	157,644	119,319	104,332	119,870	125,125
Discontinued operations	(9,781)	(20,404)	(14,543)	(14,349)	(33,630)	(36,696)
Net cost of continuing operations	$ 166,129	$ 137,240	$ 104,776	$ 89,983	$ 86,240	$ 88,429

The accumulated benefit obligations for all defined benefit plans was approximately $3,954,000, $3,762,000 and $3,037,000 at December 31, 2004, 2003 and 2002, respectively. In 2004, 2003 and 2002, Abbott recorded minimum pension liability adjustments of $120,475, $155,134 and $342,874, respectively, because the accumulated benefit obligations for certain defined benefit plans exceeded the market value of the plans' assets. This resulted in charges to Accumulated other comprehensive income (loss) of $75,947 in 2004, $99,155 in 2003 and $203,182 in 2002, net of taxes. As a result of the spin-off on April 30, 2004, Abbott transferred to Hospira a minimum pension liability adjustment and a charge to Accumulated other comprehensive income (loss), net of income taxes, of $41,051 and $23,181, respectively. For plans where the accumulated benefit obligations exceeded plan assets at December 31, 2004, 2003 and 2002, the aggregate accumulated benefit obligations were $3,053,000, $3,033,000 and $2,383,000, respectively; the projected benefit obligations were $3,738,000, $3,824,000 and $3,053,000, respectively; and the aggregate plan assets were $2,909,000, $2,567,000 and $1,981,000, respectively. The weighted average discount rate used at December 31, 2004 for determining the accumulated benefit

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obligations for defined benefit plans whose accumulated benefit obligations were in excess of plan assets was 5.7 percent. A one-percentage point reduction in the discount rate at December 31, 2004 would result in an increase in the minimum pension liability adjustments and an increase in the charge to Accumulated other comprehensive income (loss) of approximately $779,000 and $507,000, respectively.

The weighted average assumptions used to determine benefit obligations for defined benefit plans and medical and dental plans as of December 31, the measurement date of the plans, are as follows:

	2004	2003	2002
Discount rate	5.6%	5.8%	6.5%
Expected aggregate average long-term change in compensation	4.2%	4.2%	4.2%

The weighted average assumptions used to determine the net cost for defined benefit plans and medical and dental plans are as follows:

	2004	2003	2002
Discount rate	6.0%	6.5%	6.9%
Expected return on plan assets	8.4%	8.6%	9.0%
Expected aggregate average long-term change in compensation	4.2%	4.1%	4.6%

The assumed health care cost trend rates for medical and dental plans at December 31 were as follows:

	2004	2003	2002
Health care cost trend rate assumed for the next year	7%	8%	9%
Rate that the cost trend rate gradually declines to	5%	5%	5%
Year that rate reaches the assumed ultimate rate	2007	2007	2007

A one-percentage point increase/(decrease) in the assumed health care cost trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of December 31, 2004, by $179,052/$(134,289), and the total of the service and interest cost components of net post-employment health care cost for the year then ended by approximately $20,135/$(15,907).

In 2004, Abbott reflected the requirements of Financial Accounting Standards Board Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." As a result, the projected benefit obligations related to benefits attributed to past service were reduced by approximately $210,000 and the net cost recognized in 2004 was reduced by approximately $33,000.

The weighted average asset allocation for Abbott's U.S. defined benefit plans by asset category is shown in the table below. Abbott's international defined benefit plans have similar equity content.

Asset Category	2004	2003	2002
Equity securities	73%	68%	60%
Fixed income securities	27	32	40
Total	100%	100%	100%

The investment mix between equity securities and fixed income securities is based upon achieving a desired return, balancing higher return, more volatile equity securities, and lower return, less volatile fixed income securities. Abbott's domestic defined benefit plans are invested in diversified portfolios of public-market equity and fixed income securities. Investment allocations are made across a range of markets, industry sectors, capitalization sizes, and, in the case of fixed income securities, maturities and credit quality. The plans hold no securities of Abbott. Abbott's international defined benefit plans are invested in a corresponding manner, with some variance in portfolio structure around local practices.

The plans' expected return on assets, as shown above, is based on management's expectations of long-term average rates of return to be achieved by the underlying investment portfolios. In establishing this assumption, management considers historical and expected returns for the asset classes in which the plans are invested, as well as current economic and capital market conditions.

Abbott funds its domestic pension plans according to IRS funding limitations. In 2004, 2003 and 2002, $482,000, $200,000 and $106,000, respectively, was funded to the main domestic pension plan. International pension plans are funded according to similar regulations. In January 2005, $641,000 was contributed to the main domestic defined benefit plan. In addition, Abbott transferred approximately $45,000 to Hospira in 2004 in accordance with the employee benefit agreement governing the assumption by Hospira of certain defined benefit plan assets and liabilities.

Total benefit payments expected to be paid to participants, which includes payments funded from company assets for medical and dental benefits as well as paid from the plans, are as follows:

	Defined Benefit Plans	Medical and Dental Plans
2005	$ 187,205	$ 66,916
2006	188,754	69,215
2007	192,937	71,514
2008	200,427	73,813
2009	203,812	76,112
2010 to 2014	1,190,668	392,054

The Abbott Stock Retirement Plan is the principal defined contribution plan. Abbott's contributions to this plan were $97,000 in 2004, $90,000 in 2003 and $85,000 in 2002.

Abbott provides certain other post-employment benefits, primarily salary continuation plans, to qualifying domestic employees, and accrues for the related cost over the service lives of the employees.

Note 6 — Taxes on Earnings

(dollars in thousands)

Deferred income taxes reflect the tax consequences on future years of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts. U.S. income taxes are provided on those earnings of foreign subsidiaries and subsidiaries operating in Puerto Rico under tax incentive grants, which are intended to be remitted to the parent company. Except for dividends that will be remitted under the American Jobs Creation Act of 2004, Abbott does not record deferred income taxes on earnings reinvested indefinitely in foreign subsidiaries. Undistributed earnings reinvested indefinitely in

Notes to Consolidated Financial Statements

foreign subsidiaries as working capital and plant and equipment aggregated $7,896,000 at December 31, 2004. It is not practicable to determine the amount of deferred income taxes not provided on these earnings. Abbott has recorded reserves for income tax loss contingencies in accordance with SFAS No. 5. The maximum possible loss in excess of the recorded reserves is not material. In the United States, Abbott's federal income tax returns for years 1993 to 1995 are in the process of being settled at amounts that approximate recorded reserves, years 1996 to 2000 are settled and the income tax returns for years after 2000 are open.

Earnings from continuing operations before taxes, and the related provisions for taxes on earnings from continuing operations, were as follows:

Earnings From Continuing Operations Before Taxes	2004	2003	2002
Domestic	$2,278,180	$1,657,298	$2,234,764
Foreign	1,847,420	1,729,853	1,086,223
Total	$4,125,600	$3,387,151	$3,320,987

Taxes on Earnings From Continuing Operations	2004	2003	2002
Current:			
U.S. Federal and Possessions	$ 172,322	$ 536,305	$ 336,810
State	43,456	20,873	9,382
Foreign	461,740	403,895	322,419
Total current	677,518	961,073	668,611
Deferred:			
Domestic	295,030	(15,780)	123,785
Foreign	(24,272)	(62,519)	(16,490)
Enacted tax rate changes	1,488	(348)	(1,924)
Total deferred	272,246	(78,647)	105,371
Total	$ 949,764	$ 882,426	$ 773,982

Differences between the effective income tax rate and the U.S. statutory tax rate were as follows:

	2004	2003	2002
Statutory tax rate on earnings from continuing operations	35.0%	35.0%	35.0%
Benefit of lower tax rates and tax exemptions in Puerto Rico, the Netherlands and Ireland	(7.8)	(9.1)	(7.3)
Effect of nondeductible portion of the Ross enteral nutritional settlement	—	4.0	—
Effect of nondeductible acquired in-process research and development	2.0	1.0	—
State taxes, net of federal benefit	1.1	0.4	0.3
Adjustments of prior years' tax requirements primarily as a result of resolutions of prior years' tax audits	(3.6)	—	—
Domestic dividend exclusion	(2.6)	(4.8)	(5.6)
All other, net	(1.1)	(0.4)	0.9
Effective tax rate on earnings from continuing operations	23.0%	26.1%	23.3%

As of December 31, 2004, 2003 and 2002, total deferred tax assets were $2,171,782, $2,505,502 and $2,375,526, respectively, and total deferred tax liabilities were $1,349,972, $1,075,209 and $904,822, respectively. Valuation allowances for deferred tax assets were not significant. The temporary differences that give rise to deferred tax assets and liabilities were as follows:

	2004	2003	2002
Compensation and employee benefits	$ 247,885	$ 539,668	$ 544,148
Trade receivable reserves	223,507	252,559	209,899
Inventory reserves	129,052	163,492	127,173
Deferred intercompany profit	379,560	380,854	240,463
State income taxes	(7,336)	68,489	91,140
Depreciation	(193,224)	(203,019)	(183,410)
Acquired in-process research and development and other accruals and reserves not currently deductible	1,111,611	1,005,602	1,073,995
Other, primarily the excess of book basis over tax basis of intangible assets	(1,079,388)	(779,402)	(638,598)
Total	$ 811,667	$1,428,243	$1,464,810

On October 22, 2004, the President of the United States signed The American Jobs Creation Act of 2004. Among the provisions of the Act is a provision that allows for the exclusion from income of a portion of the remittances of earnings of foreign subsidiaries to U.S. shareholders through December 31, 2005. The portion of the earnings available for remittance are those earnings designated as reinvested indefinitely in foreign operations as disclosed in Abbott's 2002 financial statements. Abbott would have up to approximately $4,200,000 of such earnings available for remittance, with an estimated tax of up to $340,000 if the entire amount were remitted under the current language of the legislation. The Act continues to be subject to interpretation and rulemaking, and the estimated expense could be affected by that activity. On January 13, 2005, the U.S. Treasury and IRS issued initial guidance covering the Act. Financial Accounting Staff Position 109-2 requires companies to recognize a tax liability for remittance of earnings under the Act in the period management concludes that it would remit those earnings. As of December 31, 2004, management had not decided to remit earnings under the Act. In February 2005, Abbott concluded that it would remit approximately $600,000 in 2005 of foreign earnings previously reinvested indefinitely in accordance with the provisions of the Act. Abbott is continuing to evaluate whether it will remit all or a portion of the remaining $3,600,000 available for remittance under the Act, and expects to decide later in the year. The additional income tax expense required for the $600,000 remittance would be up to approximately $60,000 and will be recorded in the first quarter of 2005.

Note 7 — Segment and Geographic Area Information

(dollars in millions)

Revenue Segments — Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products. Abbott's products are generally sold directly to retailers, wholesalers, hospitals, health care facilities, laboratories, physicians' offices and government agencies throughout the world. Effective January 1, 2004, Abbott's segments were reorganized to reflect the shift of certain hospital pharmaceutical products from the Hospital Products segment to the Pharmaceutical Products segment, and the separation of the vascular and spinal product businesses into separate segments. On April 30, 2004, Abbott spun off its core hospital

Notes to Consolidated Financial Statements

products business which included all of the Hospital Products segment, after its reorganization on January 1, 2004, and a portion of the International segment. In addition, as of January 1, 2004, the Diagnostic Products segment was reorganized into four separate divisions. For segment reporting purposes, these divisions are aggregated and reported as the Diagnostic Products segment. The segment information below has been adjusted to reflect the reorganizations and the spin-off of Abbott's core hospital products business. Abbott's reportable segments are as follows:

Pharmaceutical Products — U.S. sales of a broad line of pharmaceuticals.

Diagnostic Products — Worldwide sales of diagnostic systems and tests for blood banks, hospitals, consumers, commercial laboratories and alternate-care testing sites.

Ross Products — U.S. sales of a broad line of adult and pediatric nutritional products, pediatric pharmaceuticals and consumer products.

International — Non-U.S. sales of Abbott's pharmaceutical and nutritional products. Products sold by International are manufactured by domestic and international manufacturing locations.

Abbott's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. Segment disclosures are on a performance basis consistent with internal management reporting. Intersegment transfers of inventory are recorded at standard cost and are not a measure of segment operating earnings. The cost of some corporate functions and the cost of certain employee benefits are sold to segments at predetermined rates that approximate cost. Remaining costs, if any, are not allocated to segments. Substantially all intangible assets and related amortization from business acquisitions are not allocated to segments. The following segment information has been prepared in accordance with the internal accounting policies of Abbott, as described above, and are not presented in accordance with generally accepted accounting principles applied to the consolidated financial statements.

	Net Sales to External Customers			Operating Earnings			Depreciation and Amortization			Additions to Long-Term Assets			Total Assets		
	2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002
Pharmaceutical	$ 7,010	$ 6,051	$ 5,062	$2,459	$2,092	$1,891	$ 63	$ 73	$ 60	$ 66	$ 64	$ 60	$ 2,911	$ 2,406	$2,279
Diagnostics (a)	3,378	3,040	2,897	378	249	220	201	202	149	399	301	295	3,691	3,127	2,753
Ross	2,326	2,136	2,088	773	720	688	69	65	64	77	93	93	1,105	959	871
International (a)	6,166	5,321	4,688	1,704	1,295	1,229	178	198	171	312	297	375	4,437	4,559	3,849
Total Reportable Segments	18,880	16,548	14,735	$5,314	$4,356	$4,028	$511	$538	$444	$854	$755	$823	$12,144	$11,051	$9,752
Other	800	732	545												
Net Sales	$19,680	$17,280	$15,280												

(a) Net sales and operating earnings in 2004 and 2003 were favorably affected by the relatively weaker U.S. dollar and were unfavorably affected in 2002 by the relatively stronger U.S. dollar.

	2004	2003	2002
Total Reportable Segment Operating Earnings	$5,314	$4,356	$4,028
Corporate functions and benefit plans costs	341	278	198
Non-reportable segments	223	68	54
Net interest expense	149	146	205
Acquired in-process research and development	279	100	108
(Income) from TAP Pharmaceutical Products Inc. joint venture	(375)	(581)	(667)
Net foreign exchange (gain) loss	29	57	71
Other, net (b)	542	901	738
Consolidated Earnings from Continuing Operations Before Taxes	$4,126	$3,387	$3,321

(b) Other, net for 2004 includes acquisition related charges, primarily related to the TheraSense acquisition. 2003 includes charges of $622 for the settlement of the Ross enteral nutritional investigation and $88 for impairments of assets. 2002 includes charges of $173 for restructuring plans, $116 for the FDA consent decree, and $194 for other than temporary declines in the market value of equity securities.

	2004	2003	2002
Total Reportable Segment Assets	$12,144	$11,051	$ 9,752
Cash and investments	2,205	1,693	1,217
Investment in TAP Pharmaceutical Products Inc. joint venture	76	340	370
Current deferred income taxes	1,032	1,165	1,023
Non-reportable segments	1,663	582	503
Assets held for sale to Hospira and assets of Hospira	317	2,153	2,202
All other, net	11,330	9,055	8,526
Total Assets	$28,767	$26,039	$23,593

	Net Sales to External Customers (c)			Long-Term Assets		
	2004	2003	2002	2004	2003	2002
United States	$11,242	$ 9,919	$ 8,916	$ 7,293	$ 7,071	$ 8,228
Japan	987	897	768	1,044	1,004	308
Germany	811	785	709	6,176	5,332	4,257
Canada	595	526	449	68	66	53
The Netherlands	705	556	426	146	129	109
Italy	745	658	554	234	253	185
All Other Countries	4,595	3,939	3,458	3,072	2,570	1,997
Consolidated	$19,680	$17,280	$15,280	$18,033	$16,425	$15,137

(c) Sales by country are based on the country that sold the product.

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Note 8 — Litigation and Environmental Matters

There are several lawsuits pending in connection with the sales of Hytrin. These suits allege that Abbott violated state or federal antitrust laws and, in some cases, unfair competition laws by signing patent settlement agreements with Geneva Pharmaceuticals, Inc. and Zenith Laboratories, Inc. in 1998. Those agreements related to pending patent infringement lawsuits between Abbott and the two companies. Some of the suits also allege that Abbott violated various state or federal laws by filing frivolous patent infringement lawsuits to protect Hytrin from generic competition. The cases seek treble damages, civil penalties and other relief. Abbott has filed or intends to file a response to each of the complaints denying all substantive allegations.

Abbott has been identified as a potentially responsible party for investigation and cleanup costs at a number of locations in the United States and Puerto Rico under federal and state remediation laws and is investigating potential contamination at a number of company-owned locations. Abbott has recorded an estimated cleanup cost for each site for which management believes Abbott has a probable loss exposure. No individual site cleanup exposure is expected to exceed $3 million, and the aggregate cleanup exposure is not expected to exceed $20 million.

Within the next year, legal proceedings may occur that may result in a change in the estimated reserves recorded by Abbott. For its legal proceedings and environmental exposures discussed in this note and in Note 9, Abbott estimates the range of possible loss to be from approximately $150 million to $210 million. Abbott has recorded reserves of approximately $155 million at December 31, 2004 for these proceedings and exposures. These reserves represent management's best estimate of probable loss, except for one which is recorded at the minimum, as defined by Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies."

While it is not feasible to predict the outcome of all such proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations.

Note 9 — TAP Pharmaceutical Products Inc.

TAP Pharmaceutical Products Inc. (TAP) and Abbott have been named as defendants in several lawsuits alleging violations of various state or federal laws in connection with TAP's marketing and pricing of *Lupron*. In 2004, TAP reached an agreement with plaintiffs to settle the allegations and dismiss Abbott and TAP from the cases. The settlement is subject to final court approval. Abbott reversed the reserve it had recorded for this matter and TAP recorded the expected settlement amount. Abbott's portion of TAP's settlement is included in the reserve amounts and range in Note 8 above.

Within the next year, legal proceedings may occur that may result in a change in the estimated reserves recorded by TAP. While it is not feasible to predict the outcome of such pending claims, proceedings, and investigations with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations.

Note 10 — Spin-off of Hospira

On April 12, 2004, Abbott's Board of Directors declared a special dividend distribution of all of the outstanding shares of common stock of Hospira, Inc. For every 10 Abbott common shares held at the close of business on April 22, 2004, Abbott shareholders received one share of Hospira common stock on April 30, 2004. All of the shares of Hospira's common stock were distributed to Abbott shareholders on a pro-rata basis. Abbott has received a ruling from the Internal Revenue Service that the spin-off qualifies as a tax-free distribution to Abbott and its U.S. shareholders for U.S. federal income tax purposes. Cash, which is generally taxable to the recipient, was paid in lieu of fractional shares. Hospira included the operations relating to the manufacture and sale of hospital products including specialty injectable pharmaceuticals, medication delivery systems and critical care devices and injectable pharmaceutical contract manufacturing. Hospira included Abbott's Hospital Products segment, after that segment's reorganization on January 1, 2004, and portions of Abbott's International segment. The income and cash flows of Hospira and the direct transaction costs of the spin-off have been presented as discontinued operations in the Consolidated Statement of Earnings and Statement of Cash Flows. Prior years' balance sheets have not been adjusted to reflect the effect of the spin-off.

The legal transfer of certain operations and assets (net of liabilities) outside the United States is expected to occur in 2005 and 2006. Approximately half of these operations are expected to be transferred to Hospira in 2005 with the remaining operations transferring in the first half of 2006. These operations and assets are used in the conduct of Hospira's international business and Hospira is subject to the risks and entitled to the benefits generated by these operations and assets. These assets and liabilities have been presented as held for sale in the Consolidated Balance Sheet as of December 31, 2004. The assets and liabilities held for sale consist primarily of inventories, trade accounts receivable, equipment and trade accounts payable, salaries and other accruals.

In April 2004, Abbott borrowed and Hospira assumed $700 million of debt, the proceeds of which were retained by Abbott to reduce short-term borrowings. Hospira is solely responsible for repayment of the principal and for payment of interest on this debt. Abbott has retained liabilities for taxes on income prior to the spin-off, post-employment medical and dental benefits for most of Hospira's U.S. retired employees and U.S. retirement eligible employees, certain potential liabilities, if any, related to alleged improper pricing practices in connection with federal, state and private reimbursement for certain drugs, and the defined benefit retirement plan liabilities and plan assets for most of Hospira's retired employees. In connection with the spin-off, Abbott's defined benefit, medical and dental and employee stock option programs have been adjusted. See footnotes 5 and 11 for further details.

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Summarized financial information for discontinued operations is as follows: *(dollars in thousands)*

	2004	2003	2002
Net sales	$793,129	$2,400,228	$2,405,126
Earnings before taxes	90,444	347,266	352,426
Taxes on earnings	30,429	98,758	105,728
Net earnings	60,015	248,508	246,698

The financial information above includes the operations of Hospira through April 30, 2004, the date of the spin-off. As a consequence, the results for the full year 2004 include only four months of the operations of Hospira. The results of the discontinued operations also include direct transaction costs of approximately $36 million and $12 million in 2004 and 2003, respectively.

The following is a summary of the assets and liabilities transferred to Hospira on April 30, 2004: *(dollars in millions)*

Trade receivables, net	$ 235
Inventories	481
Prepaid expenses, deferred income taxes, and other receivables	269
Net property and equipment	841
Goodwill	81
Deferred income taxes and other assets	91
Total Assets	$1,998
Short-term borrowings	$ 700
Trade accounts payable, salaries and other accruals	346
Post-employment obligations and other long-term liabilities	185
Total Liabilities	$1,231
Net Assets Transferred to Hospira	$ 767

Note 11 — Incentive Stock Program

The 1996 Incentive Stock Program authorizes the granting of stock options, replacement stock options, stock appreciation rights, limited stock appreciation rights, restricted stock awards, restricted stock units, performance units and foreign qualified benefits. Stock options, replacement stock options and restricted stock awards comprise the majority of benefits that have been granted and are currently outstanding under this program and prior programs. In 2004, Abbott granted 22,314,545 stock options, 3,302,646 replacement stock options, and 605,496 restricted stock awards under the program. The purchase price of shares under option must be at least equal to the fair market value of the common stock on the date of grant, and the maximum term of an option is 10 years. Options granted in 2004, 2003 and 2002 vest equally over three years except for replacement options, which vest in six months. When an employee tenders mature shares to Abbott upon exercise of a stock option, a replacement stock option is granted equal to the amount of shares tendered. Replacement options are granted at the then current market price for a term that expires on the date of the underlying option grant. Upon a change in control of Abbott, all outstanding stock options become fully exercisable, and all terms and conditions of all restricted stock awards are deemed satisfied. Hospira optionees who were eligible to retire as of the spin-off date are retired from Abbott for purposes of their outstanding options. Approximately 4.8 million Abbott options held by Hospira optionees who were not eligible to retire were cancelled and were replaced by Hospira. Pro forma compensation expense for 2004 reflects the cancellation of the options. Abbott options were adjusted for the effects of the spin-off on the intrinsic value of the options resulting in the issuance of an additional 8.2 million Abbott options.

At January 1, 2005, approximately 44 million shares were reserved for future grants under the 1996 Program. Subsequent to year-end, the Board of Directors granted approximately 22 million stock options from this reserve.

	Options Outstanding		Exercisable Options	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
January 1, 2002	86,271,959	$38.25		
Granted	24,688,761	56.11		
Exercised	(10,068,863)	28.09		
Lapsed	(1,211,101)	48.22		
December 31, 2002	99,680,756	43.58	59,224,392	$38.48
Granted	27,464,985	36.56		
Exercised	(7,032,966)	29.08		
Lapsed	(2,602,110)	47.58		
December 31, 2003	117,510,665	42.71	71,944,163	41.80
Granted	25,617,191	43.51		
Exercised	(10,173,088)	30.54		
Lapsed	(4,868,809)	45.09		
Cancelled in connection with the spin-off of Hospira	(4,826,161)	43.81		
Issued in connection with the spin-off of Hospira	8,228,700	n/a		
December 31, 2004	131,488,498	$41.01	85,810,967	$41.28

	Options Outstanding at December 31, 2004			Exercisable Options at December 31, 2004	
Range of Exercise Prices	Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$18 to $35	43,463,178	5.6	$31.69	28,784,813	$30.90
36 to 45	43,999,203	7.4	41.51	20,763,472	42.03
46 to 55	44,026,117	6.7	49.72	36,262,682	49.09
$18 to $55	131,488,498	6.6	$41.01	85,810,967	$41.28

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Abbott measures compensation cost using the intrinsic value-based method of accounting for stock options and replacement options granted to employees. Had compensation cost been determined using the fair value-based accounting method, pro forma net income (in billions) and earnings per share (EPS) amounts would have been as follows:

	2004	2003	2002
Net income, as reported	$ 3.2	$ 2.8	$ 2.8
Compensation cost under fair value-based accounting method, net of tax	(0.2)	(0.3)	(0.2)
Net income, pro forma	$ 3.0	$ 2.5	$ 2.6
Diluted EPS from Continuing Operations, as reported	$2.02	$1.59	$1.62
Diluted EPS from Continuing Operations, pro forma	1.90	1.47	1.50
Basic EPS, as reported	2.07	1.76	1.79
Basic EPS, pro forma	1.94	1.62	1.65
Diluted EPS, as reported	2.06	1.75	1.78
Diluted EPS, pro forma	1.94	1.62	1.65

The weighted average fair value of an option granted in 2004, 2003 and 2002 was $11.79, $8.73 and $16.47, respectively. For purposes of fair value disclosures, the fair value of an option grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003	2002
Risk-free interest rate	2.9%	2.7%	4.5%
Average life of options (years)	5.4	5.4	5.4
Volatility	32.0%	32.0%	28.0%
Dividend yield	2.2%	2.8%	1.6%

In December 2004, the Financial Accounting Standards Board (FASB) issued a revised Statement of Financial Accounting Standards (SFAS) No. 123, "Share Based Payment." The revised SFAS No. 123 requires that the fair value of stock options be recorded in the results of operations beginning no later than July 1, 2005. Stock compensation expense under the prior rules would have reduced reported diluted earnings per share by 12 cents in 2004. Upon adoption of the revised standard, prior awards are charged to expense under the prior rules, and awards after adoption are charged to expense under the revised rules. Abbott has not determined the effect of the new standard on its earnings, however, expense under the new standard could be somewhat higher. The effect of adopting the new rules on reported diluted earnings per share is dependent on the number of options granted in the future, the terms of those awards and their fair values, and therefore, the effect on diluted earnings per share could change. Abbott expects to adopt the revised rules on July 1, 2005, but has not determined whether it would adopt prospectively, or retrospectively to January 1, 2005.

Note 12 — Debt and Lines of Credit

(dollars in thousands)

The following is a summary of long-term debt at December 31:

	2004	2003	2002
5.125% debentures, due 2004	$ —	$ —	$1,650,000
6.8% debentures, due 2005	—	150,000	150,000
5.625% debentures, due 2006	1,600,000	1,600,000	1,600,000
6.4% debentures, due 2006	250,000	250,000	250,000
0.77% Yen notes, due 2007	97,343	91,324	—
6.0% debentures, due 2008	200,000	200,000	200,000
5.4% debentures, due 2008	200,000	200,000	200,000
1.05% Yen notes, due 2008	486,713	456,621	—
3.5% debentures, due 2009	500,000	—	—
1.51% Yen notes, due 2010	146,014	136,986	—
3.75% debentures, due 2011	500,000	—	—
1.95% Yen notes, due 2013	243,356	228,311	—
4.35% debentures, due 2014	500,000	—	—
Other, including fair market value adjustments relating to interest rate hedge contracts designated as fair value hedges	64,508	139,087	223,973
Total, net of current maturities	4,787,934	3,452,329	4,273,973
Current maturities of long-term debt, including fair market value adjustments relating to interest rate hedge contracts designated as fair value hedges	156,034	1,709,265	221,111
Total carrying amount	$4,943,968	$5,161,594	$4,495,084

Principal payments required on long-term debt outstanding at December 31, 2004, are $156,034 in 2005, $1,855,604 in 2006, $101,104 in 2007, $888,913 in 2008, $500,926 in 2009 and $1,445,078 thereafter.

At December 31, 2004, Abbott had $3,000,000 of unused lines of credit, which support commercial paper borrowing arrangements. Related compensating balances, which are subject to withdrawal by Abbott at its option, and commitment fees are not material. Abbott's weighted average interest rate on short-term borrowings was 2.2% at December 31, 2004 and 1.1% at December 31, 2003 and 2002.

Note 13 — Business Combinations and Technology Acquisitions

In 2004, Abbott paid approximately $2.3 billion for strategic business and technology acquisitions, as follows. In the fourth quarter 2004, Abbott acquired EAS, a nutritional company with a portfolio of nationally recognized brands, for approximately $320 million in cash and Spine Next, a manufacturer of orthopedic spinal implant devices, for approximately $58 million in cash plus additional milestone payments of up to $23 million upon achievement of future targets. These fourth quarter acquisitions resulted in a charge of $47 million for acquired in-process research and development, intangible assets of approximately $152 million, non-tax deductible goodwill of approximately

Notes to Consolidated Financial Statements

$191 million and deferred income taxes of approximately $60 million. Acquired intangible assets, primarily trade names, are amortized over 5 to 20 years (average of approximately 18 years). In the second quarter 2004, Abbott acquired TheraSense, Inc., a leader in the development, manufacturing and marketing of blood glucose self-monitoring systems, for approximately $1.2 billion in cash. In the second quarter 2004, Abbott also acquired certain other product technologies for approximately $352 million. These second quarter acquisitions resulted in a charge of $164 million for acquired in-process research and development, intangible assets of approximately $912 million, non-tax deductible goodwill of approximately $623 million and deferred income taxes of approximately $241 million. Acquired intangible assets, primarily product technology, are amortized over 9 to 17 years (average of approximately 13 years). In the first quarter 2004, Abbott acquired i-STAT Corporation, a manufacturer of point-of-care diagnostic products for blood analysis, for approximately $394 million in cash. This acquisition resulted in a charge of approximately $60 million for acquired in-process research and development, intangible assets of approximately $263 million, non-tax deductible goodwill of approximately $109 million and deferred income taxes of approximately $105 million. Acquired intangible assets, primarily product technology, are amortized over 7 to 18 years (average of approximately 17 years).

In 2003, Abbott paid approximately $459 million for strategic business and technology acquisitions, as follows. Abbott acquired ZonePerfect Nutrition Company, a marketer of healthy and nutritious products for active people, for approximately $160 million in cash; Integrated Vascular Systems, Inc., a developer of a novel vessel closure technology, for approximately $65 million in cash; and Spinal Concepts Inc., a marketer of spinal fixation products used in the treatment of spinal disorders, diseases and injuries, for approximately $166 million in cash plus additional milestone payments of up to $40 million if agreed upon targets are met. Abbott also acquired the assets of JOMED N.V.'s coronary and peripheral interventional business for approximately $68 million in cash. These acquisitions resulted in a charge of approximately $100 million for acquired in-process research and development, intangible assets of approximately $222 million and non-tax deductible goodwill of approximately $182 million. Acquired intangible assets, primarily product technology, are amortized over 9 to 25 years (average of approximately 16 years).

In 2002, Abbott acquired the cardiovascular stent business of Biocompatibles International plc and certain cardiovascular stent technology rights from Medtronic, Inc. In addition, Abbott acquired an additional 28.8 percent of the issued common shares of Hokuriku Seiyaku Co., Ltd., resulting in Abbott owning substantially all of the common shares of Hokuriku Seiyaku Co., Ltd. The aggregate cash purchase price ($586 million) of these strategic business and technology acquisitions resulted in a charge for acquired in-process research and development of approximately $108 million, intangible assets of approximately $145 million and non-tax deductible goodwill of approximately $257 million. Acquired intangible assets, primarily product technology, are amortized over 4 to 13 years (average of approximately 8 years).

Had the above acquisitions taken place on January 1 of the previous year, consolidated sales and income would not have been significantly different from reported amounts.

Note 14 — Goodwill and Intangible Assets

(dollars in millions)

Abbott recorded goodwill of approximately $923, $182 and $316 in 2004, 2003 and 2002, respectively, related to acquisitions. Foreign currency translation adjustments increased goodwill in 2004, 2003 and 2002 by approximately $394, $522 and $251, respectively. In connection with the spin-off of Hospira in 2004, Abbott transferred approximately $81 of goodwill to Hospira. There were no other reductions of goodwill relating to impairments or disposal of all or a portion of a business.

The gross amount of amortizable intangible assets, primarily product rights and technology, was $6,622, $4,841 and $4,504 as of December 31, 2004, 2003 and 2002, respectively, and accumulated amortization was $1,468, $899 and $733 as of December 31, 2004, 2003 and 2002, respectively. The net amount of intangible assets with indefinite lives, primarily registered trade names, not subject to amortization are not significant. The estimated annual amortization expense for intangible assets is $477 in 2005 and 2006, $462 in 2007, $442 in 2008 and $436 in 2009. Intangible assets are amortized primarily on a straight-line basis over 4 to 25 years (average 14 years).

Note 15 — Equity Method Investments

(dollars in millions)

Abbott's 50 percent-owned joint venture, TAP Pharmaceutical Products Inc. (TAP), is accounted for under the equity method of accounting. The investment in TAP was $76, $340 and $370 at December 31, 2004, 2003 and 2002, respectively. Dividends received from TAP were $638, $606 and $695 in 2004, 2003 and 2002, respectively. Abbott performs certain administrative and manufacturing services for TAP at negotiated rates that approximate fair market value. Summarized financial information for TAP is as follows:

Year Ended December 31	2004	2003	2002
Net sales	$3,361.6	$3,979.6	$4,037.4
Cost of sales	990.4	1,066.8	884.1
Income before taxes	1,181.1	1,815.5	2,081.4
Net income	750.0	1,161.9	1,333.5

December 31	2004	2003	2002
Current assets	$ 951.7	$1,451.6	$1,176.8
Total assets	1,176.6	1,718.1	1,580.3
Current liabilities	976.8	965.8	791.6
Total liabilities	1,025.2	1,037.2	839.8

Undistributed earnings of investments accounted for under the equity method amounted to approximately $53 as of December 31, 2004.

Notes to Consolidated Financial Statements

Note 16 — Stock Purchase Rights

Common shares outstanding are subject to stock purchase rights. The rights are exercisable only if a person or group acquires ten percent or more of Abbott common shares or announces a tender or exchange offer which would result in ownership of ten percent or more of Abbott common shares. Following the acquisition of ten percent or more of Abbott's common shares, the holders of the rights, other than the acquiring person or group, may purchase Abbott common shares at half price. In the event of a merger or other acquisition of Abbott, the holders of the rights, other than the acquiring person or group, may purchase shares of the acquiring entity at half price. The rights were not exercisable at December 31, 2004.

Note 17 — Quarterly Results (Unaudited)

(dollars in millions except per share data)

	2004	2003
First Quarter		
Net Sales	$4,640.9	$4,008.9
Gross Profit	2,567.4	2,209.0
Net Earnings	822.9	801.0
Basic Earnings Per Common Share (a)	.53	.51
Diluted Earnings Per Common Share (a)	.52	.51
Market Price Per Share – High	47.25	40.85
Market Price Per Share – Low	39.28	33.75
Second Quarter		
Net Sales	$4,703.0	$4,126.3
Gross Profit	2,634.3	2,277.9
Net Earnings (b)	634.3	246.6
Basic Earnings Per Common Share (a) (b)	.41	.16
Diluted Earnings Per Common Share (a) (b)	.40	.16
Market Price Per Share – High	44.67	46.94
Market Price Per Share – Low	39.43	37.57
Third Quarter		
Net Sales	$4,681.7	$4,247.8
Gross Profit	2,566.8	2,319.1
Net Earnings	804.1	761.2
Basic Earnings Per Common Share (a)	.52	.49
Diluted Earnings Per Common Share (a)	.51	.48
Market Price Per Share – High	43.20	45.09
Market Price Per Share – Low	38.26	37.65
Fourth Quarter		
Net Sales	$5,654.4	$4,897.3
Gross Profit	3,027.3	2,700.1
Net Earnings	974.6	944.4
Basic Earnings Per Common Share (a)	.62	.60
Diluted Earnings Per Common Share (a)	.62	.60
Market Price Per Share – High	47.63	47.15
Market Price Per Share – Low	40.25	39.95

(a) The sum of the first quarter, second quarter, third quarter and fourth quarter basic and diluted earnings per share for 2004 do not add to the full year earnings per share amounts due to rounding.

(b) Second quarter 2003 included a pretax charge of $622 for the settlement of the Ross enteral nutritional investigation.

Management Report on Internal Control Over Financial Reporting

The management of Abbott Laboratories is responsible for establishing and maintaining adequate internal control over financial reporting. Abbott's internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Abbott's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2004. In making this assessment, it used the criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2004, the company's internal control over financial reporting was effective based on those criteria.

Abbott's independent registered public accounting firm has issued an audit report on our assessment of the company's internal control over financial reporting. This report appears on page 63.

Miles D. White
Chairman of the Board and Chief Executive Officer

Thomas C. Freyman
Executive Vice President, Finance and Chief Financial Officer

Greg W. Linder
Vice President and Controller

February 18, 2005

Reports of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Abbott Laboratories:

We have audited the accompanying consolidated balance sheets of Abbott Laboratories and subsidiaries (the Company) as of December 31, 2004, 2003 and 2002, and the related consolidated statements of earnings, shareholders' investment, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Abbott Laboratories and subsidiaries as of December 31, 2004, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2005, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP
Chicago, Illinois
February 18, 2005

To the Board of Directors and Shareholders of Abbott Laboratories:

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting dated February 18, 2005, that Abbott Laboratories and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations in internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2004 of the Company and our report dated February 18, 2005, expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP
Chicago, Illinois
February 18, 2005

Financial Instruments and Risk Management

Interest Rate Sensitive Financial Instruments

At December 31, 2004 and 2003, Abbott had interest rate hedge contracts totaling $3.1 billion and $3.25 billion, respectively, to manage its exposure to changes in the fair value of debt due July 2006 through March 2014. Abbott does not use derivative financial instruments, such as interest rate swaps, to manage its exposure to changes in interest rates for its investment securities. As of December 31, 2004 and 2003, Abbott had $1.6 billion and $806 million, respectively, of domestic commercial paper outstanding with an average annual interest rate of 2.2% and 1.1%, respectively, with an average remaining life of 38 days and 29 days, respectively. The fair market value of long-term debt at December 31, 2004 and 2003, amounted to $5.0 billion and $5.4 billion, respectively, and consisted primarily of fixed-rate (average of 4.3% and 4.7%, respectively) debt with maturities through 2023. As of December 31, 2004 and 2003, the fair market value of current and long-term investment securities amounted to $854 million and $316 million, respectively. A hypothetical 100-basis point change in the interest rates would not have a material effect on cash flows, income or market values. (A 100-basis point change is believed to be a reasonably possible near-term change in rates.)

Market Price Sensitive Financial Instruments

Abbott maintains a portfolio of available-for-sale equity securities from strategic technology acquisitions. The market value of these investments was approximately $96 million and $331 million, respectively, as of December 31, 2004 and 2003. Abbott monitors these investments for other than temporary declines in market value, and charges impairment losses to income when an other than temporary decline in value occurs. A hypothetical 20 percent decrease in the share prices of these investments would decrease their fair value at December 31, 2004 by approximately $19 million. (A 20 percent decrease is believed to be a reasonably possible near-term change in share prices.)

Non-Publicly Traded Equity Securities

Abbott maintains a portfolio of equity securities from strategic technology acquisitions that are not traded on public stock exchanges. The carrying value of these investments was approximately $30 million and $50 million, respectively, as of December 31, 2004 and 2003. No individual investment is in excess of $14 million. Abbott monitors these investments for other than temporary declines in market value, and charges impairment losses to income when an other than temporary decline in estimated value occurs.

Foreign Currency Sensitive Financial Instruments

Abbott enters into foreign currency forward exchange contracts to manage its exposure to foreign currency denominated intercompany loans and trade payables and third-party trade payables and receivables. The contracts are marked-to-market, and resulting gains or losses are reflected in income and are generally offset by losses or gains on the foreign currency exposure being managed. At December 31, 2004 and 2003, Abbott held $3.3 billion and $3.0 billion, respectively, of such contracts, which all mature in the next calendar year.

In addition, certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts are designated as cash flow hedges of the variability of the cash flows due to changes in foreign exchange rates and are marked-to-market with the resulting gains or losses reflected in Accumulated other comprehensive income (loss). Gains or losses will be included in Cost of products sold at the time the products are sold, generally within the next calendar year. At December 31, 2004 and 2003, Abbott held $984 million and $602 million, respectively, of such contracts, which all mature in the next calendar year.

The following table reflects the total foreign currency forward contracts outstanding at December 31, 2004 and 2003:

	2004			2003		
(dollars in millions)	Contract Amount	Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)	Contract Amount	Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)
Receive primarily U.S. Dollars in exchange for the following currencies:						
Euro	$1,688	1.2843	$(39.1)	$1,887	1.19	$(11.8)
British Pound	1,112	0.542	(26.7)	799	0.59	(11.2)
Japanese Yen	533	107.3	9.2	229	108.9	0.6
Canadian Dollar	301	0.785	(20.0)	240	0.76	(2.4)
All other currencies	601	N/A	(3.3)	432	N/A	(5.5)
Total	$4,235		$(79.9)	$3,587		$(30.3)

Financial Review

Abbott's revenues are derived primarily from the sale of a broad line of health care products under short-term receivable arrangements. Patent protection and licenses, technological and performance features, and inclusion of Abbott's products under a contract or by a pharmacy benefit manager most impact which products are sold; price controls, competition and rebates most impact the net selling prices of products; and foreign currency translation impacts the measurement of net sales. Abbott's primary products are prescription pharmaceuticals, nutritional products and diagnostic testing products. Abbott also owns 50 percent of TAP Pharmaceutical Products Inc. (TAP) that Abbott accounts for on the equity method.

Integration activities, regulatory and legal issues, the worldwide launch of *HUMIRA* and the Hospira spin-off have impacted Abbott's sales, costs and financial position over the last three years.

Subsequent to Abbott's 2001 acquisition of the Knoll pharmaceutical business, which significantly increased the scale of Abbott's pharmaceutical business, Abbott focused on reorganizing and growing its global pharmaceutical business. Abbott has established a global research and development organization and a global manufacturing and distribution organization to serve its domestic and international commercial pharmaceutical operations. Pharmaceutical research and development is focused on five therapeutic areas— immunology, oncology, neuroscience, diabetes/metabolism, and viral diseases. U.S. commercial pharmaceutical operations are focused on primary care, specialty and hospital pharmaceuticals. In 2003, Abbott began the worldwide launch of *HUMIRA*, which achieved worldwide sales of $852 million in 2004.

In 2004, Abbott separated its diagnostic segment into four separate divisions—immunoassay/hematology, glucose testing, molecular, and point of care—to better focus on commercial and scientific opportunities. In early 2004, Abbott acquired TheraSense for $1.2 billion, and began to integrate it with Abbott's glucose testing business. In late 2003, Abbott was informed by the FDA that it may distribute the immunoassay products in the U.S. that were impacted by regulatory restrictions imposed in 1999. Net sales and profits for this business declined over the restricted period, but stabilized in 2004. In 2004, Abbott diagnostics launched more than 80 new products. In the Ross segment in 2003, Abbott settled its portion of an industry-wide investigation of the enteral nutritional business for $614 million.

In 2004, Abbott completed the spin-off of Hospira, Abbott's former hospital products business. Prior to the spin-off, the hospital pharmaceutical and vascular device businesses, which Abbott retained, were transferred to the pharmaceutical business and Abbott Vascular Products segment, respectively. Annual sales of Hospira were approximately $2.4 billion. As part of the spin-off, Hospira assumed $700 million of debt. The historical operating and cash flow results of Hospira are now presented as discontinued operations. Hospira is contractually obligated to purchase the international hospital assets and operations that were not included in the spin-off.

TAP's contribution to Abbott's earnings has declined over the last two years. A part of the decline is due to increased competition for *Prevacid*, TAP's largest selling product, and due to market contraction for prescription proton pump inhibitors. In 2004, TAP recorded additional litigation reserves of $125 million for an anticipated legal settlement.

Abbott's short- and long-term debt totaled $6.8 billion at December 31, 2004, largely incurred to finance acquisitions. Operating cash flows in excess of capital expenditures and cash dividends have allowed Abbott to reduce debt and fund acquisitions over the last three years. At December 31, 2004, Abbott's long-term debt rating was AA by Standard and Poor's and A1 by Moody's Investors Service.

In 2005, Abbott will focus on several key initiatives. In the pharmaceutical business, Abbott expects worldwide sales of *HUMIRA*, its rheumatoid arthritis drug launched in 2003 and 2004, to exceed $1.3 billion in 2005. Abbott will also focus on appropriate market support for *Synthroid*, which became subject to generic U.S. competition in mid-2004. U.S. *Synthroid* sales in 2004 and 2003 were $637 million and $565 million, respectively, and are projected to exceed $400 million in 2005. In 2005, Abbott expects a response from the FDA to Abbott's regulatory submissions made in 2004 for *Xinlay*, for prostate cancer, *Kaletra* once-daily dosing, *Zemplar* capsules, and additional *HUMIRA* indications, and TAP expects a response for its filing for Febuxostat. Abbott expects to submit a similar number of additional pharmaceutical regulatory filings in 2005. Pharmaceutical research and development efforts will continue to be focused in the five therapeutic areas noted above with a significant portion of the development expenditures allocated to new *HUMIRA* indications. In the immunoassay business, attention will be focused on improving revenue growth by capitalizing on recent product launches, launching additional products, and commercial execution of the existing broad product portfolio. In addition, Abbott expects to place with customers additional *ARCHITECT* immunochemistry diagnostic instruments in 2005. With a greater focus on consumer marketing, Ross will maximize the strength of its core brands and expand its healthy-living market presence. In the other business segments, Abbott will focus on developing or acquiring differentiated technologies in higher growth segments of those markets.

Financial Review

Critical Accounting Policies

Sales Rebates — Approximately 40 percent of Abbott's consolidated gross revenues are subject to various forms of rebates and allowances that Abbott records as reductions of revenues at the time of sale. Most of these allowances are in two of Abbott's domestic segments—the Pharmaceutical Products segment and the Ross Products segment. Abbott provides rebates to pharmacy benefit management companies, to state agencies which administer the federal Medicaid program and the Special Supplemental Food Program for Women, Infants, and Children (WIC), wholesalers, group purchasing organizations, and other government and private entities. Rebate amounts are usually based upon the volume of purchases using contractual or statutory prices for a product. Factors used in the rebate calculations include the identification of which products have been sold subject to a rebate, which customer or government price terms apply, and the estimated lag time between sale and payment of a rebate. Using historical trends, adjusted for current changes, Abbott estimates the amount of the rebate that will be paid, and records the liability as a reduction of gross sales when Abbott records its sale of the product. Settlement of the rebate occurs from two to 24 months after sale. Abbott regularly analyzes the historical rebate trends and makes adjustments to reserves for changes in trends and terms of rebate programs. Rebates and chargebacks charged against gross sales in 2004 amounted to approximately $2.4 billion, or 25.6 percent, based on gross sales of approximately $9.3 billion subject to rebate. Rebates and chargebacks charged against gross sales were approximately $1.8 billion in 2003 and $1.4 billion in 2002. A one-percentage point increase in the percentage of rebates to related gross sales would decrease 2004 net sales and operating earnings by approximately $93 million. Other allowances charged against gross sales were approximately $233 million, $191 million and $164 million for cash discounts in 2004, 2003 and 2002, respectively, and $163 million, $171 million and $157 million for returns in 2004, 2003 and 2002, respectively. Cash discounts are known within 15 to 30 days of sale, and therefore can be reliably estimated. Returns can be reliably estimated because Abbott's historical returns are low, and because sales returns terms and other sales terms have remained relatively unchanged for several periods.

Management analyzes the adequacy of ending accrual balances each quarter. In the Ross nutritional business, management uses both internal and external data available to estimate the level of inventory in the distribution channel. Management internally estimates the inventory in the retail channel that is not on the retail shelf. A third party continuously measures time on the retail shelf, which is a relatively significant portion of the time inventory is in the distribution channel. Except for a transition period before or after a change in the supplier for the WIC business in a state, inventory in the distribution channel does not vary substantially. Management also estimates the states' processing lag time based on claims data. In addition, internal processing time is a factor in estimating the accrual. In the WIC business the state where the sale is made, which is the determining factor for the applicable price, is reliably estimable. Estimates are required for the amount of WIC sales within each state where Abbott has the WIC business. External data sources utilized for that estimate are participant data from the U.S. Department of Agriculture (USDA), which administers the WIC program, participant data from some of the states, and internally administered market surveys. The USDA has been making its data available for many years. Internal data includes historical redemption rates and pricing data. At December 31, 2004, Ross had the exclusive WIC business in 12 states. Recent competitive and market conditions have resulted in a trend towards more WIC sales, and therefore a higher sales rebate provision.

In the domestic pharmaceutical business, the most significant charges against gross sales are for Medicaid Rebates, Pharmacy Benefit Manager Rebates and Wholesaler Chargebacks. In order to evaluate the adequacy of the ending accrual balances, management uses both internal and external estimates of the level of inventory in the distribution channel and the rebate claims processing lag time. External data sources used to estimate the inventory in the distribution channel include inventory levels periodically reported by wholesalers and third party market data purchased by Abbott. Management estimates the processing lag time based on periodic sampling of claims data. To estimate the price rebate percentage, systems and calculations are used to track sales by product by customer and to estimate the contractual or statutory price. Abbott's systems and calculations have developed over time as rebates have become more significant, and Abbott believes they are very reliable.

Settlement of rebate accruals from the date of sale ranges from 5 to 12 weeks for WIC, 31 to 35 weeks for Medicaid, 27 to 31 weeks for Pharmacy Benefit Managers and 2 to 8 weeks for Wholesaler Chargebacks. Average settlement times are 8 weeks for WIC, 33 weeks for Medicaid, 29 weeks for Pharmacy Benefit Managers and 6 weeks for Wholesaler Chargebacks.

The following table is an analysis of the four largest rebate accruals, which comprise approximately 82 percent of the consolidated rebate provisions charged against revenues in 2004. Information necessary to prepare this table for 2003 and 2002 is not available due to the spin-off of Hospira that occurred in 2004. Remaining rebate provisions charged against gross sales are not significant in the determination of operating earnings. *(dollars in thousands)*

		Pharmaceutical Products		
	Ross Products WIC Rebates	Medicaid Rebates	Pharmacy Benefit Manager Rebates	Wholesaler Chargebacks
Balance at January 1, 2004	$113,362	$229,070	$145,195	$ 37,093
Provisions	671,817	596,330	279,681	419,486
Payments	(687,132)	(452,342)	(271,078)	(412,526)
Balance at December 31, 2004	$ 98,047	$373,058	$153,798	$ 44,053

In the analysis above, due to systems limitations, it is not practical and has not been necessary to break out current versus prior year activity. When applicable, Abbott analyzes current year activity to identify whether material changes in estimate in the current period relate to prior period sales. Changes in estimates for current and prior years' rebate and chargeback accruals have not been material to operating income. Abbott employs various techniques to verify the accuracy of claims submitted to it, and where possible, works with the organizations submitting claims to gain insight into changes that might affect the rebate amounts. For Medicaid and other government agency programs, the calculation of a rebate involves interpretations of relevant regulations, which are subject to challenge or change in interpretation.

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Income Taxes — Abbott operates in numerous countries where its income tax returns are subject to audits and adjustments. Because Abbott operates globally, the nature of the audit items are often very complex, and the objectives of the government auditors can result in a tax on the same income in more than one country. Abbott employs internal and external tax professionals to minimize audit adjustment amounts where possible. As part of Abbott's calculation of the provision for taxes on earnings, Abbott records the amount that it expects to incur as a result of audits. Each quarter, Abbott reviews its exposures in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies." In the U.S., Abbott's federal income tax returns for years 1993 to 1995 are in the process of being settled at amounts that approximate recorded reserves; years 1996 to 2000 are settled, and the income tax returns for years after 2000 are open. As discussed in further detail in Legislative Issues, in February 2005, as a result of the American Jobs Creation Act of 2004, management concluded that it would remit a portion of its foreign earnings previously considered reinvested indefinitely in foreign subsidiaries. Except for dividends that will be remitted under the Act, Abbott does not record deferred income taxes on earnings reinvested indefinitely in foreign subsidiaries.

Pension and Post-Employment Benefits — Abbott offers pension benefits and post-employment health care to many of its employees. Abbott engages outside actuaries to calculate its obligations and costs under these programs. With the assistance of outside actuaries, Abbott must develop long-term assumptions, the most significant of which are the health care cost trend rate, discount rate and the expected return on plan assets. A difference between the assumed rates and the actual rates, which will not be known for decades, can be significant in relation to the obligations and the annual cost recorded for these programs. Recent low interest rates have significantly increased unrecognized actuarial losses for these plans. At December 31, 2004, the unrecognized actuarial losses for Abbott's defined benefit plans and medical and dental plans were $1.495 billion and $588 million, respectively. Unrecognized actuarial losses and gains are amortized over the remaining service periods of the employees under the corridor method, in accordance with the rules for accounting for post-employment benefits. Differences between the expected long-term return on plan assets and the actual annual return are amortized over a five-year period. Footnote 5 to the consolidated financial statements describes the impact of a one-percentage point change in the health care cost trend rate; however, there can be no certainty that a change would be limited to only one percentage point. In 2004, 2003 and 2002, Abbott recorded minimum pension liability adjustments of $120 million, $155 million and $343 million, respectively, because the accumulated benefit obligations for certain defined benefit plans exceeded the market value of the plans' assets. This resulted in charges to Accumulated other comprehensive income (loss) of $76 million, $99 million and $203 million, net of taxes, in 2004, 2003 and 2002, respectively. The weighted average discount rate used at December 31, 2004 for determining the accumulated benefit obligations for defined benefit plans whose accumulated benefit obligations were in excess of plan assets was 5.7 percent. A one-percentage point reduction in the discount rate at December 31, 2004 would result in an increase in the minimum pension liability adjustments and an increase in the charge to Accumulated other comprehensive income (loss) of approximately $779 million and $507 million, respectively.

Valuation of Intangible Assets — Abbott has acquired and continues to acquire significant intangible assets that Abbott values and records. Those assets which do not yet have regulatory approval and for which there are no alternative uses are expensed as acquired in-process research and development, and those that have regulatory approval are capitalized. Transactions involving the purchase or sale of intangible assets occur with some frequency between companies in the health care field, and valuations are usually based on a discounted cash flow analysis. Abbott uses a discounted cash flow model to value acquired intangible assets. The discounted cash flow model requires assumptions about the timing and amount of future net cash inflows, risk, the cost of capital, and terminal values. Each of these factors can significantly affect the value of the intangible asset. Abbott engages independent valuation experts who review Abbott's critical assumptions and calculations for significant acquisitions of intangibles. Abbott reviews intangible assets for impairment each quarter using an undiscounted net cash flows approach. If the undiscounted cash flows of an intangible asset are less than the carrying value of an intangible asset, the intangible asset is written down to its fair value, which is usually the discounted cash flow amount. Where cash flows cannot be identified for an individual asset, the review is applied at the lowest group level for which cash flows are identifiable. Goodwill is reviewed for impairment annually or when an event that could result in an impairment of goodwill occurs. At December 31, 2004, goodwill and intangibles amounted to $5.7 billion and $5.2 billion, respectively. Amortization expense for intangible assets amounted to approximately $448 million in 2004. There were no impairments of goodwill in 2004.

Litigation — Abbott accounts for litigation losses in accordance with SFAS No. 5, "Accounting for Contingencies." Under SFAS No. 5, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. These estimates are often initially developed substantially earlier than the ultimate loss is known, and the estimates are refined each accounting period, as additional information becomes known. Accordingly, Abbott is often initially unable to develop a best estimate of loss, and therefore the minimum amount, which could be zero, is recorded. As information becomes known, either the minimum loss amount is increased, resulting in additional loss provisions, or a best estimate can be made, also resulting in additional loss provisions. Occasionally, a best estimate amount is changed to a lower amount when events result in an expectation of a more favorable outcome than previously expected. For its legal proceedings and environmental exposures, Abbott estimates the range of possible loss to be from approximately $150 million to $210 million. Abbott has recorded reserves at December 31, 2004 of approximately $155 million for these proceedings and exposures. These reserves represent management's best estimate of probable loss, except for one which is recorded at the minimum, as defined by SFAS No. 5.

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Stock Compensation — Abbott currently measures compensation cost using the intrinsic value-based method of accounting for stock options and replacement stock options granted to employees and discloses the impact of the fair value method in the footnotes to the consolidated financial statements. In December 2004, the Financial Accounting Standards Board issued a revised Statement of Financial Accounting Standards No. 123, "Share Based Payment," which requires that fair value be recorded in the results of operations beginning no later than July 1, 2005. Since there is no market for trading employee stock options, there is no certainty that the result of the fair value method would be the value at which employee stock options would be traded for cash. Fair value methods require several assumptions, the most significant of which are stock price volatility and the average life of an option. See Recently Issued Accounting Standards below for further discussion.

Results of Operations

Sales

The following table details the components of sales growth by segment for the last three years:

	Total %	Components of Change %		
Total Net Sales	Change	Price	Volume	Exchange
2004 vs. 2003	13.9	1.6	9.1	3.2
2003 vs. 2002	13.1	1.3	7.8	4.0
2002 vs. 2001	9.8	0.9	9.5	(0.6)
Total U.S.				
2004 vs. 2003	12.8	3.8	9.0	—
2003 vs. 2002	11.6	1.6	10.0	—
2002 vs. 2001	8.6	0.9	7.7	—
Total International				
2004 vs. 2003	15.3	(1.0)	8.9	7.4
2003 vs. 2002	15.1	0.9	5.0	9.2
2002 vs. 2001	11.5	0.9	12.1	(1.5)
Pharmaceutical Products Segment				
2004 vs. 2003	15.8	7.2	8.6	—
2003 vs. 2002	19.5	3.3	16.2	—
2002 vs. 2001	14.3	3.1	11.2	—
Diagnostic Products Segment				
2004 vs. 2003	11.1	(1.2)	6.9	5.4
2003 vs. 2002	5.0	—	(1.8)	6.8
2002 vs. 2001	(1.1)	(0.1)	(0.6)	(0.4)
Ross Products Segment				
2004 vs. 2003	8.9	(0.5)	9.4	—
2003 vs. 2002	2.3	(0.9)	3.2	—
2002 vs. 2001	—	(2.2)	2.2	—
International Segment				
2004 vs. 2003	15.9	(1.0)	9.5	7.4
2003 vs. 2002	13.5	1.4	3.4	8.7
2002 vs. 2001	15.6	1.3	16.1	(1.8)

A comparison of the product group sales by segment is as follows. Percentage changes are versus the prior year and are based on unrounded numbers.

		Percent		Percent		Percent
(dollars in millions):	2004	Change	2003	Change	2002	Change
Pharmaceutical Products						
Primary Care	3,975	23	3,220	26	2,549	22
Specialty	2,069	33	1,561	26	1,242	6
Hospital Pharmaceuticals	838	(1)	847	5	805	19
Diagnostic Products						
Immunochemistry	2,141	2	2,094	3	2,030	(4)
Diabetes Care	791	46	542	10	494	9
Ross Products						
Pediatric Nutritionals	1,146	5	1,093	9	1,004	(4)
Adult Nutritionals	934	15	809	(3)	838	1
International						
Other Pharmaceuticals	3,184	21	2,629	15	2,287	31
Anti-Infectives	804	5	766	10	696	(2)
Hospital Pharmaceuticals	592	15	516	18	437	10
Pediatric Nutritionals	595	13	527	8	486	1
Adult Nutritionals	663	12	591	12	528	4

Sales of new products in 2004 are estimated to be approximately $1.8 billion, led by *HUMIRA* in the Pharmaceutical Products and International segments and incremental sales of approximately $300 million from the acquisitions of TheraSense, ZonePerfect and EAS. Sales in the Pharmaceutical Products segment of *Mobic*, *TriCor* and *Flomax* in 2004 and 2003 favorably impacted Primary Care Products sales, and increased sales of *HUMIRA* favorably impacted Specialty Products sales in 2004 and 2003. Increased sales of *HUMIRA* also favorably impacted Other Pharmaceuticals sales in the International Segment in 2004. Worldwide sales of *HUMIRA* totaled $852 million in 2004 and $280 million in 2003 and are forecasted to be more than $1.3 billion in 2005. Diagnostic Products and International segment products sales were favorably impacted in 2004 and 2003 by the effect of the relatively weaker U.S. dollar. Diabetes Care product sales for the Diagnostic Products segment were favorably impacted by the acquisition of TheraSense in the second quarter of 2004. In addition, Adult Nutritionals product sales for the Ross Products segment were favorably impacted by the acquisitions of ZonePerfect in the third quarter of 2003 and EAS in the fourth quarter of 2004. In Abbott's annual report on Form 10-K for the year ended December 31, 2003, Abbott disclosed that the FDA was studying conditions under which competitors could rely on Abbott's NDA to market a competitive product to *Synthroid*. In the second quarter 2004, the FDA granted approval for generic competition to *Synthroid* and generic competitors have entered the market. U.S. sales of *Synthroid* in 2004, 2003 and 2002 were $637 million, $565 million and $489 million, respectively. In late 2004, clarithromycin became subject to generic competition

in the United Kingdom and Germany. In May of 2005 the composition of matter patent on clarithromycin in the U.S. expires. In the U.S., Abbott markets clarithromycin in two forms, the immediate release and the extended release forms, both of which are covered by additional non-composition of matter patents. There may be further generic competition for clarithromycin in the U.S. and other countries in 2005 depending on the results of legal proceedings related to the patents. U.S. sales of clarithromycin in 2004 were $458 million, and international sales were $725 million. Sevoflurane has been subject to generic competition in isolated markets outside of the U.S. and further generic competition in international markets is possible. International sales of Sevoflurane were $484 million in 2004. Abbott has periodically sold product rights to non-strategic products and has recorded the related gains in net sales in accordance with Abbott's revenue recognition policies as discussed in footnote 1 to the consolidated financial statements. Related net sales were $144 million in 2004, $241 million in 2003 and $157 million in 2002.

The expiration of licenses or patent protection can affect the future revenues and operating income of Abbott. Significant patent expirations and activities in the next three years are as follows. The Pharmaceutical Products segment markets *TriCor* in the U.S. under a license agreement and patents covering *TriCor* are being challenged by competitors. Abbott is vigorously defending the patents. U.S. sales of *TriCor* were $779 million in 2004. In 2004 Abbott received approval for a form of *TriCor* that has additional therapeutic benefits. This form is covered under non-composition of matter patents which expire in 2017. The Pharmaceutical Products segment has an agreement with Boehringer Ingelheim to co-promote and distribute three of its products. The co-promotion rights for all three products phase out over time, beginning in 2004 and ending in 2006, and distribution rights expire predominately in 2007 and partially in 2008. Margins are disproportionately lower for these products than for the other products in this segment. Related revenues recorded in 2004 were $1.6 billion, an increase of 39 percent over 2003.

Operating Earnings

Gross profit margins were 54.9 percent of net sales in 2004, 55.0 percent in 2003 and 55.4 percent in 2002. The gross profit margin in 2004 was impacted by the favorable mix effect of exchange on the gross profit margin and by unfavorable product mix, primarily increased sales of lower margin Boehringer Ingelheim products, as discussed above, in the Pharmaceutical Products segment. The gross profit margin for 2003 was impacted by a charge of $88 million for an impairment of assets and other expenses as a result of a lower sales forecast for *Abbokinase*; partially offset by favorable product mix, resulting mainly from increased sales in the Pharmaceutical Products segment. The gross profit margin for 2002 included the effects of the Lake County diagnostic FDA consent decree charge, restructuring charges and unfavorable product mix; partially offset by the absence of goodwill amortization in 2002. Gross profit margins in all years were also affected by productivity improvements, higher project expenses for new products, higher manufacturing capacity costs for anticipated unit growth, and the effects of inflation and competitive pricing pressures.

In the U.S., states receive price rebates from manufacturers of infant formula under the federally subsidized Special Supplemental Food Program for Women, Infants, and Children. There are also rebate programs for pharmaceutical products. These rebate programs continue to have a negative effect on the gross profit margins of the Ross and Pharmaceutical Products segments. In addition, pricing pressures unfavorably impacted the gross profit margins for the Ross Products segment in 2004, 2003 and 2002.

The gross profit margins for the Pharmaceutical Products segment were unfavorably impacted in 2004 and 2002 by unfavorable product mix and favorably impacted in 2003 by favorable product mix. In addition, the gross profit margins in 2004 and 2003 for the Pharmaceutical Products segment were unfavorably impacted by increased sales of lower margin Boehringer Ingelheim products and higher other manufacturing costs. The gross profit margins in 2003 and 2002 for the Diagnostic Products segment were impacted by the effects of the FDA consent decree, as discussed below.

Under terms of a 1999 consent decree with the U.S. government, Abbott was prohibited from manufacturing certain diagnostic products for sale in the U.S. until its Lake County, Ill. manufacturing facilities were found to be in substantial conformity with the Food and Drug Administration's (FDA) Quality System Regulation. In December of 2003, the FDA found the facilities to be in substantial conformity and Abbott began the process of manufacturing impacted products for sale in the U.S. In connection with the consent decree, Abbott recorded remediation costs and payments to the government, including a pretax charge of $129 million in 2002.

Research and development expense, excluding acquired in-process research and development, was $1.7 billion in 2004, $1.6 billion in 2003 and $1.5 billion in 2002 and represented 8.6 percent of net sales in 2004 compared to 9.4 percent of net sales in 2003 and 9.7 percent of net sales in 2002. Research and development increased in 2004 and 2003, but not at the same rate as sales due, in part, to lower spending on Phase III clinical trials in 2004 and 2003 compared to 2002. The majority of research and development expenditures are concentrated on pharmaceutical products.

Selling, general and administrative expenses increased 2.4 percent in 2004 compared to increases of 29.1 percent in 2003 and 6.7 percent in 2002. In 2003, Abbott recorded in Selling, general and administrative expenses, a pretax charge of $614 million related to the settlement of the Ross enteral nutritional investigation. This 2003 charge reduced the increase in selling, general and administrative expenses by 15.0 percentage points for 2004 and increased selling, general and administration expenses by 16.5 percentage points over 2002. The increases in selling, general and administrative expenses, excluding the charge for the investigation, were due primarily to increased selling and marketing support for new and existing products, including spending for the launch of *HUMIRA*, as well as spending on other marketed pharmaceutical products. Increases in all three years also reflect inflation, the effect of acquisitions and additional selling and marketing support primarily in the Pharmaceutical Products and International segments.

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In 2004, Abbott reflected the requirements of Financial Accounting Standards Board Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." The effect of this change reduced the post-employment medical and dental plan net cost for 2004 by approximately $33 million.

(Income) From TAP Pharmaceutical Products, Inc. Joint Venture

Abbott's income from the TAP Pharmaceutical Products Inc. (TAP) joint venture was lower in 2004 and 2003 due to decreased sales due to market contraction for prescription proton pump inhibitors, and in 2004 by approximately $40 million as a result of an agreement with plaintiffs to settle litigation.

Other (Income) Expense, net

Other (income) expense, net for 2002 includes a charge of $194 million as a result of other than temporary declines in the market values of certain equity securities.

Net Interest Expense

Net interest expense increased in 2004 due to a higher level of debt, partially offset by higher interest income. Net interest expense decreased in 2003 and 2002 due to a lower level of borrowings and lower interest rates.

Taxes on Earnings

The effective income tax rates on income from continuing operations were 23.0 percent in 2004, 26.1 percent in 2003 and 23.3 percent in 2002. The effective tax rate for 2004 reflects adjustments of prior years' tax requirements primarily as a result of resolutions of prior years' tax audits. The 2004 effective tax rate also reflects the effect of non-deductible acquired in-process research and development. The effect of these items for 2004 was to decrease the effective tax rate by approximately 1.2 percentage points. The effective tax rate for 2003 includes the effect of the charge for the settlement of the Ross enteral nutritional investigation and the charges for acquired in-process research and development. The effect of these charges for 2003 was to increase the effective tax rate by approximately 2.4 percentage points. Abbott expects to apply an annual effective rate of around 24.0 percent in 2005, excluding the effects of adoption of the new stock compensation rules and for dividends that will be remitted under the American Jobs Creation Act of 2004, both as discussed below.

Spin-off of Abbott's Core Hospital Products Business

On April 12, 2004, Abbott's Board of Directors declared a special dividend distribution of all of the outstanding shares of common stock of Hospira, Inc. For every 10 Abbott common shares held at the close of business on April 22, 2004, Abbott shareholders received one share of Hospira common stock on April 30, 2004. All of the shares of Hospira's common stock were distributed to Abbott shareholders on a pro-rata basis. Abbott has received a ruling from the Internal Revenue Service that the spin-off qualifies as a tax-free distribution to Abbott and its U.S. shareholders for U.S. federal income tax purposes. Cash, which is generally taxable to the recipient, was paid in lieu of fractional shares. Hospira included the operations relating to the manufacture and sale of hospital products including specialty injectable pharmaceuticals, medication delivery systems and critical care devices and injectable pharmaceutical contract manufacturing. Hospira included Abbott's Hospital Products segment, after that segment's reorganization on January 1, 2004, and portions of Abbott's International segment. The income and cash flows of Hospira and the direct transaction costs of the spin-off have been presented as discontinued operations in the Consolidated Statement of Earnings and Statement of Cash Flows. Prior years' balance sheets have not been adjusted to reflect the effect of the spin-off.

The legal transfer of certain operations and assets (net of liabilities) outside the United States is expected to occur in 2005 and 2006. Approximately half of these operations are expected to be transferred to Hospira in 2005 with the remaining operations transferring in the first half of 2006. These operations and assets are used in the conduct of Hospira's international business and Hospira is subject to the risks and entitled to the benefits generated by these operations and assets. These assets and liabilities have been presented as held for sale in the Consolidated Balance Sheet as of December 31, 2004. The assets and liabilities held for sale consist primarily of inventories, trade accounts receivable, equipment and trade accounts payable, salaries and other accruals.

In April 2004, Abbott borrowed and Hospira assumed $700 million of debt, the proceeds of which were retained by Abbott to reduce short-term borrowings. Hospira is solely responsible for repayment of the principal and for payment of interest on this debt. Abbott has retained liabilities for taxes on income prior to the spin-off, post-employment medical and dental benefits for most of Hospira's U.S. retired employees and U.S. retirement eligible employees, certain potential liabilities, if any, related to alleged improper pricing practices in connection with federal, state and private reimbursement for certain drugs, and the defined benefit retirement plan liabilities and plan assets for most of Hospira's retired employees. In connection with the spin-off, Abbott's defined benefit, medical and dental and employee stock option programs have been adjusted.

Business Combinations and Technology Acquisitions

In 2004, Abbott paid approximately $2.3 billion for strategic business and technology acquisitions, as follows. In the fourth quarter 2004, Abbott acquired EAS, a nutritional company with a portfolio of nationally recognized brands, for approximately $320 million in cash and Spine Next, a manufacturer of orthopedic spinal implant devices, for approximately $58 million in cash plus additional milestone payments of up to $23 million upon achievement of future targets. These fourth quarter acquisitions resulted in a charge of $47 million for acquired in-process research and development, intangible assets of approximately $152 million, non-tax deductible goodwill of approximately $191 million and deferred income taxes of approximately $60 million. Acquired intangible assets, primarily trade names, are amortized over 5 to 20 years (average of approximately 18 years). In the second quarter 2004, Abbott acquired TheraSense, Inc., a leader in the development, manufacturing and marketing of blood glucose self-monitoring systems, for approximately $1.2 billion in cash. In the second quarter 2004, Abbott

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also acquired certain other product technologies for approximately $352 million. These second quarter acquisitions resulted in a charge of $164 million for acquired in-process research and development, intangible assets of approximately $912 million, non-tax deductible goodwill of approximately $623 million and deferred income taxes of approximately $241 million. Acquired intangible assets, primarily product technology, are amortized over 9 to 17 years (average of approximately 13 years). In the first quarter 2004, Abbott acquired i-STAT Corporation, a manufacturer of point-of-care diagnostic products for blood analysis, for approximately $394 million in cash. This acquisition resulted in a charge of approximately $60 million for acquired in-process research and development, intangible assets of approximately $263 million, non-tax deductible goodwill of approximately $109 million and deferred income taxes of approximately $105 million. Acquired intangible assets, primarily product technology, are amortized over 7 to 18 years (average of approximately 17 years).

In 2003, Abbott paid approximately $459 million for strategic business and technology acquisitions, as follows. Abbott acquired ZonePerfect Nutrition Company, a marketer of healthy and nutritious products for active people, for approximately $160 million in cash; Integrated Vascular Systems, Inc., a developer of a novel vessel closure technology, for approximately $65 million in cash; and Spinal Concepts Inc., a marketer of spinal fixation products used in the treatment of spinal disorders, diseases and injuries, for approximately $166 million in cash plus additional milestone payments of up to $40 million if agreed upon targets are met. Abbott also acquired the assets of JOMED N.V.'s coronary and peripheral interventional business for approximately $68 million in cash. These acquisitions resulted in a charge of approximately $100 million for acquired in-process research and development, intangible assets of approximately $222 million and non-tax deductible goodwill of approximately $182 million. Acquired intangible assets, primarily product technology, are amortized over 9 to 25 years (average of approximately 16 years).

In 2002, Abbott acquired the cardiovascular stent business of Biocompatibles International plc and certain cardiovascular stent technology rights from Medtronic, Inc. In addition, Abbott acquired an additional 28.8 percent of the issued common shares of Hokuriku Seiyaku Co., Ltd., resulting in Abbott owning substantially all of the common shares of Hokuriku Seiyaku Co., Ltd. The aggregate cash purchase price ($586 million) of these acquisitions resulted in a charge for acquired in-process research and development of approximately $108 million, intangible assets of approximately $145 million and non-tax deductible goodwill of approximately $257 million. Acquired intangible assets, primarily product technology, are amortized over 4 to 13 years (average of approximately 8 years).

Had the above acquisitions taken place on January 1 of the previous year, consolidated sales and income would not have been significantly different from reported amounts.

Financial Condition

Cash Flow

Net cash from operating activities of continuing operations amounted to $4.3 billion, $3.4 billion and $3.7 billion in 2004, 2003 and 2002, respectively. Net cash from operating activities in 2003 was lower than 2002 due, in part, to the payment of the Ross enteral nutritional settlement, as discussed above. In 2004, 2003 and 2002, $482 million, $200 million and $106 million, respectively, was contributed to the main domestic defined benefit plan. In addition, Abbott transferred approximately $45 million to Hospira in 2004 in accordance with the employee benefit agreement governing the assumption by Hospira of certain defined benefit plan assets and liabilities. In January 2005, approximately $640 million was contributed to the main domestic defined benefit plan and $140 million was contributed to the post-employment medical and dental benefit plans. Abbott expects pension funding for its main domestic pension plan in 2006 to 2010 to be between $200 million and $400 million annually. The increased contribution in 2005 is due, in part, to anticipation of investment of cash to be remitted under the American Jobs Creation Act of 2004.

Debt and Capital

At December 31, 2004, Abbott's long-term debt rating was AA by Standard and Poor's and A1 by Moody's Investors Service. Abbott has readily available financial resources, including unused lines of credit of $3.0 billion, which support domestic commercial paper borrowing arrangements.

In June 2000, the Board of Directors authorized the purchase of 25 million shares of Abbott's common stock and Abbott purchased 13.3 million shares from this authorization from 2000 through 2003. In 2004, Abbott purchased the remaining 11.7 million of its common shares under this authorization at a cost of approximately $500 million. In October 2004, the Board of Directors authorized the purchase of 50 million shares of Abbott's common stock from time to time. No purchases under this authorization were made in 2004.

Under a registration statement filed with the Securities and Exchange Commission in September 2003, Abbott issued $1.5 billion of long-term debt in 2004 that matures in 2009 through 2014 with interest rates ranging from 3.5 percent to 4.35 percent. Proceeds from this debt were used to fund the acquisition of TheraSense and to pay down domestic commercial paper borrowings. In connection with these borrowings, Abbott entered into interest rate hedge contracts totaling $1.5 billion to manage its exposure to changes in the fair value of the $1.5 billion of debt. These contracts are designated as fair value hedges of the variability of the fair value of fixed-rate debt due to changes in the long-term benchmark interest rates. The effect of the hedge is to change the fixed interest rate to a variable rate.

Abbott retained $700 million of proceeds from borrowings that Hospira assumed as a result of the spin-off and used these proceeds to reduce domestic commercial paper borrowings. In addition, Abbott retired long-term debt of $1.65 billion in 2004 with proceeds from domestic commercial paper borrowings.

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Working Capital

At December 31, 2004, 2003 and 2002, working capital was $3.9 billion, $2.7 billion and $2.1 billion, respectively.

Capital Expenditures

Capital expenditures of $1.3 billion in 2004 and $1.1 billion in 2003 and 2002 were principally for upgrading and expanding manufacturing, research and development, investments in information technology and administrative support facilities in all segments, and for laboratory instruments placed with customers. An increased proportion of the capital expenditures will be dedicated to domestic and international pharmaceutical operations.

Contractual Obligations

Abbott has periodically entered into agreements in the ordinary course of business, such as assignment of product rights, with other companies which has resulted in Abbott becoming secondarily liable for obligations that Abbott was previously primarily liable. Since Abbott no longer maintains a business relationship with the other parties, Abbott is unable to develop an estimate of the maximum potential amount of future payments under these obligations. Based upon past experience, the likelihood of payments under these agreements is remote. In addition, Abbott periodically acquires small companies in which Abbott agrees to pay contingent consideration based on attaining certain thresholds. The following table summarizes Abbott's estimated contractual obligations as of December 31, 2004.

(dollars in millions)	Payment Due By Period				
	Total	2005	2006 – 2007	2008 – 2009	2010 and Thereafter
Long-term debt, including current maturities and future interest payments	$ 5,829	$ 371	$2,269	$1,549	$1,640
Operating lease obligations	366	100	131	84	51
Capitalized auto lease obligations	89	30	59	—	—
Purchase commitments (a)	1,707	1,571	121	11	4
Other long-term liabilities reflected on the consolidated balance sheet—					
Benefit plan obligations, including minimum pension liability adjustments of $577	1,913	—	201	198	1,514
Other	855	—	310	148	397
Total	$10,759	$2,072	$3,091	$1,990	$3,606

(a) Purchase commitments are for purchases made in the normal course of business to meet operational and capital expenditure requirements.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued a revised Statement of Financial Accounting Standards (SFAS) No. 123, "Share Based Payment." The revised SFAS No. 123 requires that the fair value of stock options be recorded in the results of operations beginning no later than July 1, 2005. Stock compensation expense under the prior rules would have reduced reported diluted earnings per share by 12 cents in 2004. Upon adoption of the revised standard, prior awards are charged to expense under the prior rules, and awards after adoption are charged to expense under the revised rules. Abbott has not determined the effect of the new standard on its earnings, however, expense under the new standard could be somewhat higher. The effect of adopting the new rules on reported diluted earnings per share is dependent on the number of options granted in the future; the terms of those awards and their fair values, and therefore, the effect on diluted earnings per share could change. Abbott expects to adopt the revised rules on July 1, 2005, but has not determined whether it would adopt prospectively, or retrospectively to January 1, 2005. See footnote 11 to the consolidated financial statements for assumptions used by management in calculating the fair value of employee stock options.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs." This statement clarifies the accounting for the abnormal amount of idle facilities expense, freight, handling costs and wasted material. This statement requires that those items be recognized as current-period expense. In addition the statement requires that allocation of fixed overhead to the cost of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred after December 31, 2005. Adoption of this statement will not have a material effect on the financial statements of Abbott.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS No. 146 was effective for exit or disposal activities that

Financial Review

are initiated after December 31, 2002 and did not have a material effect on the financial statements of Abbott. Abbott accounted for the 2002 restructuring plans in accordance with Emerging Issues Task Force (EITF) Issue No. 94-3 and, accordingly, charged to income in 2002 all appropriate exit costs for plans approved by management before December 31, 2002. Accounting for these restructuring plans under SFAS No. 146 would have resulted in some of the expenses that were recorded in 2002 being recorded in 2003. However, a significant amount of expenses would have been charged against income in 2002 under either EITF No. 94-3 or SFAS No. 146.

Legislative Issues

On October 22, 2004, the President of the United States signed The American Jobs Creation Act of 2004. Among the provisions of the Act is a provision that allows for the exclusion from income of a portion of the remittances of earnings of foreign subsidiaries to U.S. shareholders through December 31, 2005. The portion of the earnings available for remittance are those earnings designated as reinvested indefinitely in foreign operations as disclosed in Abbott's 2002 financial statements. Abbott would have up to approximately $4.2 billion of such earnings available for remittance, with an estimated tax of up to $340 million if the entire amount were remitted under the current language of the legislation. The Act continues to be subject to interpretation and rulemaking, and the estimated expense could be affected by that activity. On January 13, 2005, the U.S. Treasury and IRS issued initial guidance covering the Act. Financial Accounting Staff Position 109-2 requires companies to recognize a tax liability for remittance of earnings under the Act in the period management concludes that it would remit those earnings. As of December 31, 2004, management had not decided to remit earnings under the Act. In February 2005, Abbott concluded that it would remit approximately $600 million in 2005 of foreign earnings previously reinvested indefinitely in accordance with the provisions of the Act. Abbott is continuing to evaluate whether it will remit all or a portion of the remaining $3.6 billion available for remittance under the Act, and expects to decide later in the year. The additional income tax expense required for the $600 million remittance would be up to approximately $60 million and will be recorded in the first quarter of 2005.

Other provisions of the Act include a new deduction for qualified domestic production activities and elimination of the extraterritorial income exclusion (ETI). Financial Accounting Staff Position 109-1 requires that the deduction for production activities be recognized in the year reported on the income tax return. The deduction for production activities will be gradually phased in from 2005 to 2009, while the ETI will be gradually phased out in 2005 and 2006. Abbott expects the net effect on these two changes to approximately offset once the phase-ins are completed, with 2005 neutral and with slightly higher expense for 2006 to 2009.

Effective January 1, 2005, the Medicare formula for reimbursement to providers for physician-administered drugs changed. Abbott has determined that the formula change is not expected to have a significant effect on its results of operations.

Abbott's primary markets are highly competitive and subject to substantial government regulation. Abbott expects debate to continue in the U.S. at both the federal and the state levels over the availability, method of delivery, and payment for health care products and services. Abbott believes that if further legislation is enacted, it could have the effect of reducing access to health care products and services, or reducing prices or the rate of price increases for health care products and services. International operations are also subject to a significant degree of government regulation. It is not possible to predict the extent to which Abbott or the health care industry in general might be adversely affected by these factors in the future. A more complete discussion of these factors is contained in Item 1, Business, in the Annual Report on Form 10-K.

Private Securities Litigation Reform Act of 1995 — A Caution Concerning Forward-Looking Statements

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Abbott cautions investors that any forward-looking statements or projections made by Abbott, including those made in this document, are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Exhibit 99.1 to the Annual Report on Form 10-K, which is available upon request.

Summary of Selected Financial Data (a)

(dollars in million, except per share data)

Year ended December 31		2004	2003	2002	2001	2000
Summary of Operations:						
Net Sales	$	19,680.0	17,280.3	15,279.5	13,918.5	11,520.6
Cost of products sold	$	8,884.2	7,774.2	6,820.5	6,107.1	4,762.1
Research and development (b)	$	1,696.8	1,623.8	1,474.5	1,491.8	1,245.6
Selling, general and administrative	$	4,921.8	4,808.1	3,724.9	3,491.0	2,669.6
Operating earnings	$	3,898.3	2,974.0	3,151.9	1,498.2	2,981.9
Interest expense	$	200.2	188.3	238.9	307.3	113.9
Interest income	$	(51.1)	(41.9)	(33.5)	(71.4)	(90.1)
Other (income), net	$	(376.4)	(559.5)	(374.4)	(231.3)	(436.9)
Earnings from continuing operations before taxes	$	4,125.6	3,387.2	3,321.0	1,493.6	3,395.0
Taxes on earnings from continuing operations	$	949.8	882.4	774.0	215.9	906.1
Earnings from continuing operations	$	3,175.8	2,504.7	2,547.0	1,277.7	2,488.9
Basic earnings per share from continuing operations	$	2.03	1.60	1.63	0.82	1.61
Diluted earnings per share from continuing operations	$	2.02	1.59	1.62	0.82	1.59
Financial Postion:						
Working capital	$	3,908.8	2,650.9	2,119.6	492.4	3,078.7
Long-term investments	$	145.8	406.4	250.8	647.2	638.0
Net property and equipment	$	6,007.9	6,281.8	5,828.1	5,551.5	4,816.9
Total assets	$	28,767.5	26,039.3	23,592.7	22,755.5	14,796.7
Long-term debt	$	4,787.9	3,452.3	4,274.0	4,335.5	1,076.4
Shareholders' investment	$	14,325.8	13,072.3	10,664.6	9,059.4	8,570.9
Return on shareholders' investment from continuing operations	%	23.8	22.6	28.0	15.9	34.4
Book value per share	$	9.18	8.36	6.82	5.83	5.54
Other Statistics:						
Gross profit margin	%	54.9	55.0	55.4	56.1	58.7
Research and development to net sales	%	8.6	9.4	9.7	10.7	10.8
Net cash from operating activities of continuing operations	$	4,306.0	3,385.2	3,653.5	3,083.7	2,780.0
Capital expenditures	$	1,291.6	1,050.1	1,105.4	963.6	836.8
Cash dividends declared per common share	$	1.04	0.98	0.94	0.84	0.76
Common shares outstanding (in thousands)		1,560,024	1,564,518	1,563,068	1,554,530	1,545,934
Number of common shareholders		88,582	91,212	94,687	97,760	101,272
Number of employees		60,617	58,181	57,819	56,426	45,571
Sales per employee (in dollars)	$	324,662	297,010	264,265	246,668	252,806
Market price per share – high	$	47.63	47.15	58.00	57.17	56.25
Market price per share – low	$	38.26	33.75	29.80	42.00	29.375
Market price per share – close	$	46.65	46.60	40.00	55.75	48.438

(a) In 2004, Abbott spun off Hospira Inc. and as a result, prior years' statements of income and cash flows have been adjusted to reflect the effects of the spin-off.

(b) In 2004, 2003, 2002 and 2001 Abbott also recorded pretax charges of $279, $100, $108 and $1,330 for acquired in-process research and development related to business acquisitions.

Directors and Corporate Officers

Directors

Roxanne S. Austin
Former President and Chief Operating Officer, DIRECTV, Inc. El Segundo, Calif.

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Chairman of the Midwest, JP Morgan Chase & Co. Chicago, Ill.

H. Laurance Fuller
Retired Co-Chairman of the Board, BP Amoco, p.l.c. London, United Kingdom

Richard A. Gonzalez
President and Chief Operating Officer, Medical Products Group, Abbott

Jack M. Greenberg
Retired Chairman and Chief Executive Officer, McDonald's Corp. Oak Brook, Ill.

Jeffrey M. Leiden, M.D., Ph.D.
President and Chief Operating Officer, Pharmaceutical Products Group, Chief Scientific Officer, Abbott

The Rt. Hon. Lord Owen CH
Chairman of Global Natural Energy, p.l.c. London, United Kingdom

Boone Powell, Jr.
Retired Chairman, Baylor Health Care System Dallas, Texas

Addison Barry Rand
Chairman and Chief Executive Officer, Equitant Stamford, Conn.

W. Ann Reynolds, Ph.D.
Retired Director, Center for Community Outreach and Development, The University of Alabama at Birmingham Birmingham, Ala.

Roy S. Roberts
Managing Director, Reliant Equity Investors Chicago, Ill.

William D. Smithburg
Retired Chairman, President and Chief Executive Officer, The Quaker Oats Co. Chicago, Ill.

John R. Walter
Retired President and Chief Operating Officer, AT&T Corp. Basking Ridge, N.J.; Former Chairman and Chief Executive Officer, R.R. Donnelley & Sons Co. Chicago, Ill.

Miles D. White
Chairman of the Board and Chief Executive Officer, Abbott

Senior Management

Miles D. White*
Chairman of the Board and Chief Executive Officer

Richard A. Gonzalez*
President and Chief Operating Officer, Medical Products Group

Jeffrey M. Leiden, M.D., Ph.D.*
President and Chief Operating Officer, Pharmaceutical Products Group, Chief Scientific Officer

Richard W. Ashley*
Executive Vice President, Corporate Development

Jose M. de Lasa*
Executive Vice President and General Counsel (Retires March 31, 2005)

Thomas C. Freyman*
Executive Vice President, Finance and Chief Financial Officer

William G. Dempsey*
Senior Vice President, Pharmaceutical Operations

John C. Landgraf*
Senior Vice President, Global Pharmaceutical Manufacturing and Supply

Holger Liepmann*
Senior Vice President, International Operations

Gary E. McCullough*
Senior Vice President, Ross Products

Joseph M. Nemmers, Jr.*
Senior Vice President, Diagnostic Operations

Laura J. Schumacher*
Senior Vice President, Secretary and General Counsel

Thomas M. Wascoe*
Senior Vice President, Human Resources

Corporate Vice Presidents

Alejandro A. Aruffo, Ph.D.
Vice President, Abbott Immunology R&D and President, Abbott Bioresearch Center

Catherine V. Babington
Vice President, Investor Relations and Public Affairs

Michael G. Beatrice, Ph.D.
Vice President, Corporate Regulatory and Quality Science

Jeffrey R. Binder
Vice President and President, Abbott Spine

Olivier Bohuon
Vice President, European Operations

Charles M. Brock
Vice President, Chief Ethics and Compliance Officer

William E. Brown III, Ph.D.
Vice President, Diagnostic Assays and Systems Development

Douglas C. Bryant
Vice President, Diagnostic Global Commercial Operations

Thomas F. Chen
Vice President, Pacific, Asia and Africa Operations

Michael J. Collins
Vice President, Diagnostic Commercial Operations, U.S.

Jaime Contreras
Vice President, Diagnostic Commercial Operations, Europe, Africa and Middle East

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Vice President, Internal Audit

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Vice President and President, Abbott Diabetes Care

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Vice President, Compensation and Development

Robert B. Hance
Vice President and President, Vascular Devices

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Vice President, Japan Operations

Elaine R. Leavenworth
Vice President, Government Affairs

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Vice President, Global Pharmaceutical Development

Greg W. Linder*
Vice President and Controller

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Vice President, Ross Products, Pediatrics

Heather L. Mason
Vice President, Pharmaceutical Products, Specialty Operations

P. Loreen Mershimer
Vice President, Pharmaceutical Products, Integrated Healthcare Marketing and Policy

Edward L. Michael
Vice President and President, Molecular Diagnostics

Karen L. Miller
Vice President, Information Technology (Retires March 31, 2005)

Sean E. Murphy
Vice President, Global Licensing/New Business Development

Daniel W. Norbeck, Ph.D.
Vice President, Global Pharmaceutical Discovery

D. Stafford O'Kelly
Vice President, Latin America and Canada

Donald V. Patton, Jr.
Vice President, International Marketing

AJ J. Shoultz
Vice President, Taxes

Preston T. Simons
Vice President, Information Technology

Mary T. Szela
Vice President, Pharmaceutical Products, Primary Care Operations

James L. Tyree
Vice President, Global Licensing/New Business Development

Susan M. Widner
Vice President, Corporate Marketing

** Denotes executive officers*

Shareholder and Corporate Information

Stock Listing

The ticker symbol for Abbott's common stock is ABT. It is listed on the New York, Chicago, Pacific, London and Swiss exchanges. It is traded on the Boston, Cincinnati and Philadelphia exchanges.

Quarterly Dividend Dates

Dividends are expected to be declared and paid on the following schedule in 2005, pending approval by the board of directors:

Quarter	Declared	Record	Paid
First	2/18	4/15	5/15
Second	6/10	7/15	8/15
Third	9/9	10/14	11/15
Fourth	12/9	1/13/06	2/15/06

Tax Information for Shareholders

Tax information regarding the Hospira spinoff is available online at www.abbottinvestor.com.

Abbott is an Illinois High Impact Business and is located in a U.S. federal Foreign Trade Sub-Zone (Sub-Zone 22F). Dividends may be eligible for a subtraction from base income for Illinois income tax purposes.

If you have any questions, please contact your tax advisor.

Dividend Reinvestment Plan

The Abbott Dividend Reinvestment Plan offers registered shareholders an opportunity to purchase additional shares, commission-free, through automatic dividend reinvestment and/or optional cash investments. Interested persons may contact the transfer agent, call Abbott's Investor Newsline or write Abbott Shareholder Services.

Dividend Direct Deposit

Shareholders may have quarterly dividends deposited directly into a checking or savings account at any financial institution that participates in the Automated Clearing House system. For more information, please contact the transfer agent, call the Investor Newsline or write Abbott Shareholder Services.

Annual Meeting

The annual meeting of shareholders will be held at Abbott's corporate headquarters on Friday, April 22, 2005, at 9 a.m. Questions regarding the annual meeting may be directed to the Corporate Secretary.

A copy of Abbott's 2004 Form 10-K Annual Report, as filed with the Securities and Exchange Commission, is available on the Abbott Web site at www.abbott.com or by contacting the Investor Newsline.

CEO and CFO Certifications

In 2004, Abbott's chief executive officer (CEO) provided to the New York Stock Exchange the annual CEO certification regarding Abbott's compliance with the New York Stock Exchange's corporate governance listing standards. In addition, Abbott's CEO and chief financial officer filed with the U.S. Securities and Exchange Commission all required certifications regarding the quality of Abbott's public disclosures in its fiscal 2004 reports.

Investor Newsline

(847) 937-7300

Investor Relations

Dept. 383, AP6D2

Shareholder Services

Dept. 312, AP6D2

Corporate Secretary

Dept. 364, AP6D2

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Abbott Park, IL 60064-6400 U.S.A.
(847) 937-6100

Web Site

www.abbott.com

Global Citizenship Report

Visit www.abbott.com/citizenship to read Abbott's current global citizenship report.

Transfer Agent and Registrar

EquiServe
P.O. Box 43010
Providence, RI 02940-3010
(888) 332-2268
www.EquiServe.com

Shareholder Information

Shareholders with questions about their accounts may contact the transfer agent, call the Investor Newsline or write Abbott Shareholder Services.

Individuals who would like to receive additional information or have questions regarding Abbott's business activities may call the Investor Newsline, write Abbott Investor Relations or visit Abbott's Web site.

Some statements in this annual report may be forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995. Abbott cautions that these forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Exhibit 99.1 to our Securities and Exchange Commission 2004 Form 10-K, and are incorporated by reference. We undertake no obligation to release publicly any revisions to forward-looking statements as the result of subsequent events or developments.

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